

GRUPO CASA SABA SA DE CV  
Form 20-F/A  
September 23, 2011

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

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FORM 20-F/A  
(Amendment No. 2)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
for the year ended December 31, 2010

Commission file number 1-12632

Grupo Casa Saba, S.A.B. de C.V.  
(Exact name of Registrant as specified in its charter)

N/A  
(Translation of Registrant's name into English)

Mexico  
(Jurisdiction of Incorporation or Organization)

Paseo de la Reforma, No. 215  
Colonia Lomas de Chapultepec, Mexico, D.F. 11000

Mexico  
(Address of Principal Executive Offices)

Sandra Yatsko  
+(52 55) 5284-6672  
+(52 55) 5284-6633  
syatsko@casasaba.com  
Paseo de la Reforma, No. 215  
Colonia Lomas de Chapultepec, Mexico, D.F. 11000  
(Name, Telephone, E-mail and/or facsimile number and address of contact person)

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SECURITIES REGISTERED OR TO BE REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class	Name of Each Exchange on Which Registered
American Depositary Shares, each representing ten Ordinary Shares, without par value	New York Stock Exchange
Ordinary Shares, without par value	New York Stock Exchange (for listing purposes only)

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Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

The number of outstanding shares of each class of capital or common stock as of December 31, 2010 was:  
265,419,360 Ordinary Shares, without par value.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Note - Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).Not applicable

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated Filer  Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards as issued  
by the International Accounting Standards Board  Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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EXPLANATORY NOTE

This Annual Report on Form 20-F/A is being filed as an amendment (“Amendment No. 2”) to our Annual Report on Form 20-F for the year ended December 31, 2010 (“2010 Annual Report on Form 20-F”) filed with the U.S. Securities and Exchange Commission on June 30, 2011 in order to restate “Item 18. Financial Statements” due to the inclusion of an additional Report of Independent Registered Public Accounting Firm on page F-4 of our 2010 Annual Report on Form 20-F, with respect to our recently-acquired subsidiary Farmacias Ahumada S.A. (which was also filed pursuant to the amendment to our 2010 Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission on July 5, 2011 (“Amendment No. 1”)).

As required by Rule 12b-15 of the U.S. Securities Exchange Act of 1934, we are including currently-dated certifications by our principal executive officer and our principal financial officer as exhibits to this Amendment No. 2 under “Item 19. Exhibits” hereof.

Other than as set forth above, this Amendment No. 2 does not, and does not purport to, amend, update or restate any other information or disclosure included in our 2010 Annual Report on Form 20-F or reflect any events occurred after the June 30, 2011 filing date of our 2010 Annual Report on Form 20-F in any way.

## Item 18.

## Financial Statements

The following financial statements, together with the report of Salles Sáinz-Grant Thornton, S.C. thereon, are filed as part of this Annual Report.

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All supplementary schedules relating to the Company are omitted because they are not required or because the required information, where material, is contained in our audited consolidated financial statements or the notes thereto.

## Item 19.

## Exhibits

Documents filed as an exhibit to this annual report are as follows:

Exhibit Number	Description of Exhibits
12.1	Certification of the Principal Executive Officer of Grupo Casa Saba, S.A.B. de C.V. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
12.2	Certification of the Principal Financial Officer of Grupo Casa Saba, S.A.B. de C.V. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*

13.1 Certification of the Principal Executive and Financial Officer of Grupo Casa Saba, S.A.B. de C.V. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*

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\* Filed herewith.

SIGNATURE

GRUPO CASA SABA, S.A.B. DE C.V., hereby certifies that it meets all of the requirements for filing on Form 20-F/A and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

GRUPO CASA SABA, S.A.B. DE C.V.

Dated: September 23, 2011

By: /s/ Gabriel Saba D'jamus  
Name: Gabriel Saba D'jamus  
Title: Chief Executive Officer

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MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining an adequate system of internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The assessment excluded the internal control over financial reporting relating to Farmacias Ahumada, S.A., which was acquired on October 3, 2010, as described in Note 1 (d) of our consolidated financial statements. The financial statements of Farmacias Ahumada, S.A. reflect total assets and revenues that constitute 31 percent and 13 percent, respectively, of assets and revenues of our consolidated financial statements as of and for the year ended December 31, 2010.

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with financial reporting standards. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our Group's assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with financial reporting standards, and that receipts and expenditures are being made only in accordance with the authorization of management and the directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that misstatement of our financial statements would be prevented or detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Based on our evaluation under the framework in Internal Control-Integrated Framework, our management has concluded that our internal control over financial reporting was effective as of December 31, 2010.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2010 has been audited by Salles Sainz-Grant Thornton, S.C., an independent registered public accounting firm, as stated in its report, which can be found on page F-2 of Item 18. It is worth noting that Farmacias Ahumada, S.A. was acquired on October 3, 2010 and, as a result, our assessment does not include the internal control over financial reporting of Farmacias Ahumada, S.A.

By: /s/ Gabriel Saba D'jamus

By: /s/ Alejandro Sadurni  
Gomez

Name: Gabriel Saba D'jamus  
Title: Chief Executive Officer

Name: Alejandro Sadurni  
Gomez  
Title: Chief Financial Officer

June 30, 2011

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders  
Grupo Casa Saba, S.A.B. de C.V.:

We have audited the accompanying consolidated balance sheets of Grupo Casa Saba, S.A.B. de C.V. and Subsidiaries (collectively the Group) as of December 31, 2009 and 2010, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Farmacias Ahumada, S.A., a Chilean wholly-owned subsidiary acquired by the Group on October 3, 2010, which statements reflect total assets and revenues constituting 31 percent and 13 percent, respectively, of the related consolidated totals as of December 31, 2010. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Farmacias Ahumada, S.A., is based solely on the report of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States of America) and with auditing standards generally accepted in Mexico. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Grupo Casa Saba, S.A.B. de C.V. and Subsidiaries as of December 31, 2009 and 2010, and the results of their operations, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2010, in conformity with financial reporting standards applicable in Mexico.

Mexican Financial Reporting Standards (Mexican FRS) vary in certain material respects to accounting principles generally accepted in the United States of America (U.S. GAAP). A summary of these differences and a partial reconciliation of consolidated net income for each of the three years in the period ended December 31, 2010 and consolidated stockholders' equity as of December 31, 2009 and 2010 from Mexican FRS to U.S. GAAP, as permitted by Form 20-F of the Securities and Exchange Commission of the United States of America, are set forth in Notes 21 and 22.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States of America), the Group's internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated June 30, 2011 expressed an unqualified opinion on the effectiveness of the Group's internal control over financial reporting.

Salles, Sainz-Grant Thornton, S.C.

Mexico City, Mexico

June 30, 2011

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders:  
Farmacias Ahumada S.A.:

We have audited the accompanying consolidated balance sheet of Farmacias Ahumada S.A. and subsidiaries as of December 31, 2010 and the related consolidated statements of income, changes in stockholders' equity and cash flows for the period from October 3, 2010 (the date of disposal) to December 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The management of Farmacias Ahumada, S.A. decided to omit the 2009 comparative financial statement and their related notes as required by Mexican Financial Reporting Standards.

In our opinion, except for the omission of the comparative financial information as discussed in the preceding paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Farmacias Ahumada S.A. and subsidiaries as of December 31, 2010, and the results of their operations and their cash flows for the period from October 3, 2010 (the date of disposal) to December 31, 2010, in conformity with Mexican Financial Reporting Standards.

Mexican Financial Reporting Standards vary in certain significant respects from U.S. generally accepted accounting principles. The management of Farmacias Ahumada, S.A. decided to omit information relating to the nature and effect of such differences in these consolidated financial statements.

KPMG Auditores Consultores Ltda.

Santiago, Chile

June 30, 2011



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING

Board of Directors and Stockholders  
Grupo Casa Saba, S.A.B. de C.V.:

We have audited Grupo Casa Saba, S.A.B. de C.V. and Subsidiaries' (the Group) internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Group's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting (Management's Report) as of December 31, 2010. Our responsibility is to express an opinion on the Group's internal control over financial reporting based on our audit. Our audit of, and opinion on, Grupo Casa Saba, S.A.B. de C.V. and Subsidiaries' internal control over financial reporting does not include internal control over financial reporting of Farmacias Ahumada, S.A., a Chilean wholly-owned subsidiary acquired by the Group, whose financial statements reflect total assets and revenues constituting 31 percent and 13 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2010. As indicated in Management's Report, Farmacias Ahumada, S.A. was acquired on October 3, 2010 and therefore, management's assertion on the effectiveness of the Group's internal control over financial reporting excluded internal control over financial reporting of Farmacias Ahumada, S.A.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A Group's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with financial reporting standards. A Group's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Group; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with financial reporting standards, and that receipts and expenditures of the Group are being made only in accordance with authorizations of management and directors of the Group; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Group's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Grupo Casa Saba, S.A.B. de C.V. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control—Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States of America) and with auditing standards generally accepted in Mexico, the consolidated balance sheets of Grupo Casa Saba, S.A.B. de C.V. and Subsidiaries as of December 31, 2009 and 2010, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2010. Our report dated June 30, 2011 expressed an unqualified opinion on those consolidated financial statements.

SALLES SAINZ-GRANT THORNTON, S.C.

Mexico City, Mexico  
June 30, 2011

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## Grupo Casa Saba, S.A.B. de C.V. and Subsidiaries

Consolidated balance sheets  
(Amounts stated in thousands of Mexican pesos (Ps.)  
and thousands of U.S. dollars (\$))

		AS OF DECEMBER 31,		Convenience		AS OF DECEMBER	
	Notes	2009	2010	translation		Notes	2009
				2010			
<b>CURRENT ASSETS:</b>					<b>CURRENT LIABILITIES:</b>		
					Short-term debt including		
					current maturity of		
Cash and cash equivalents	(3.f)	Ps. 664,261	Ps. 1,290,466	\$ 104,224	long-term debt	( 12 )	Ps. 1,491,126
Trade receivables less allowance for doubtful accounts	(3.i and 4)	5,228,320	6,938,303	560,368	Trade accounts payable		5,052,236
Other accounts receivable	( 5 )	895,549	1,434,792	115,880	Other payables and accrued liabilities		136,120
Inventories, net	(3.j and 6)	5,141,142	8,857,279	715,352			
Other current assets	(3.g and 7)	45,971	190,518	15,387	Total current liabilities		6,679,482
Total current assets		11,975,243	18,711,358	1,511,211	<b>NONCURRENT LIABILITIES:</b>		
					LONG - TERM DEBT	( 12 )	891,644
					EMPLOYEE BENEFITS	(3.o and 3.p)	68,161
<b>NONCURRENT ASSETS:</b>					DEFERRED INCOME TAX	( 13 )	675,768
PROPERTY AND EQUIPMENT, net	(3.k and 9)	1,400,188	3,726,889	301,000	OTHER PAYABLES		121,405
					Total noncurrent liabilities		1,756,978
					Total liabilities		8,436,460
INVESTMENT IN	(3.b)		51,177	4,133			

## ASSOCIATES

				STOCKHOLDERS' EQUITY:	
				Controlling interest:	
OTHER			18,790		
ASSETS, net	25,764	232,658		Capital stock ( 16 )	1,123,764
				Premium on stock sold	869,878
				Reserve for share repurchases ( 16 )	1,062,201
				Retained earnings	3,457,781
GOODWILL, INTANGIBLE ASSETS, AND DEFERRED CHARGES, NET	(3.1 and 10)	1,686,474	8,513,021	Accumulated translation effect (3.e)	137,585
			687,549	Total controlling interest	6,651,209
				Noncontrolling interest	
Total noncurrent assets	3,112,426	12,523,745	1,011,472		
				Total stockholders' equity	6,651,209
Total assets	Ps. 15,087,669	Ps. 31,235,103	\$2,522,683	Total liabilities and stockholders' equity	Ps. 15,087,669 Ps. 3

The accompanying notes are an integral part of these consolidated financial statements

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Grupo Casa Saba, S.A.B. de C.V. and Subsidiaries

Consolidated statements of income  
(Amounts stated in thousands of Mexican pesos (Ps.)  
and thousands of U.S. dollars (\$))

FOR THE YEARS ENDED DECEMBER 31,

	Notes	2008	2009	2010	Convenience translation 2010
Net sales	(3.t)	Ps. 28,400,059	Ps. 29,791,657	Ps. 34,244,182	\$ 2,765,709
Cost of sales		25,334,471	26,565,802	29,614,296	2,391,779
Gross profit		3,065,588	3,225,855	4,629,886	373,930
Operating expenses:					
Selling		905,435	937,907	1,242,468	100,347
Administrative		1,199,448	1,397,223	2,702,820	218,292
		2,104,883	2,335,130	3,945,288	318,639
Operating income		960,705	890,725	684,598	55,291
Other (income) expenses, net		(58,189 )	136,307	100,274	8,099
Comprehensive gain or loss on financing, net:	(3.q)				
Interest income		(11,817 )	(5,076 )	(199,528 )	(16,115 )
Interest expense		190,303	264,479	493,430	39,852
Exchange loss (gain), net		2,632	2,840	(30,876 )	(2,494 )
		181,118	262,243	263,026	21,243
Non-ordinary item		(59,791 )			
Equity in income of associates	(3.b)			(2,900 )	(234 )

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Income before tax on earnings		897,567	492,175	324,198	26,183
Provisions for income tax	(3.p and13)	302,449	211,897	54,128	4,371
Consolidated net income		Ps. 595,118	Ps. 280,278	Ps. 270,070	\$ 21,812
Controlling interest net income		595,118	280,278	276,934	22,366
Noncontrolling interest net income				(6,864 )	(554 )
Consolidated net income		Ps. 595,118	Ps. 280,278	Ps. 270,070	\$ 21,812
Basic and diluted net income per share	(3.s)	Ps. 2.242	Ps. 1.056	Ps. 1.018	
Weighted average shares outstanding (in thousands)		265,419	265,419	265,419	

The accompanying notes are an integral part of these consolidated financial statements

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## Grupo Casa Saba, S.A.B. de C.V. and Subsidiaries

Consolidated statements of stockholders' equity  
for the years ended December 31, 2008, 2009 and 2010  
(Amounts stated in thousands of Mexican pesos (Ps.)  
and thousands of U.S. dollars (\$))

	Capital stock					Retained earnings	Deficit on restatement	Accrued deferred income tax on earnings	Additional employee retirement liability
	Historical	Restatement	Premium on stock sold	Reserve for share repurchases					
Balances as of January 1, 2008	Ps. 167,903	Ps. 955,861	Ps. 869,878	Ps. 1,062,201	Ps. 5,668,439	Ps. (2,571,740)	Ps. (40,695)	Ps. (19,127)	
Dividends paid (Note 16.c)					(170,000 )				
Transfer to accumulated earnings					(2,612,435)	2,571,740	40,695		
Comprehensive income					595,118			19,127	
Balances as of December 31, 2008	167,903	955,861	869,878	1,062,201	3,481,122				
Dividends paid (Note 16.c)					(170,000 )				
New financial reporting standard adopted - 18 (Note 3.p)					(133,619 )				
Comprehensive income					280,278				
Balances as of January 31, 2009	167,903	955,861	869,878	1,062,201	3,457,781				

Comprehensive  
income

276,934

Balances as of  
December 31,

2010

Ps. 167,903

Ps. 955,861

Ps. 869,878

Ps. 1,062,201

Ps. 3,734,715

Ps.

Ps.

Ps.

The accompanying notes are an integral part of these consolidated financial statements

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Grupo Casa Saba, S.A.B. de C.V. and Subsidiaries

Consolidated statements of cash flows  
(Amounts stated in thousands of Mexican pesos (Ps.)  
and thousands of U.S. dollars (\$))

	FOR THE YEARS ENDED DECEMBER 31,			Convenience translation
	2008	2009	2010	2010
<b>OPERATING ACTIVITIES:</b>				
Income before tax on earnings	Ps. 897,567	Ps. 492,175	Ps. 324,198	Ps. 26,183
Items relating to investing activities:				
Depreciation and amortization	90,004	108,659	191,005	15,426
Interest earned	(11,817 )	(5,076 )	(199,528 )	(16,115 )
Loss on sale of property and equipment	5,152	14,938	28,174	2,275
Impairment of goodwill		210,000		
Equity in income of associates			(2,900 )	(234 )
Items relating to financing activities :				
Interest expense	190,303	264,479	493,430	39,852
Provision for employee benefits		31,468	66,990	5,410
	1,171,209	1,116,643	901,369	72,797
Adjustments due to changes in:				
Accounts receivable	(1,043,300)	(6,240 )	(1,283,034)	(103,623)
Other accounts receivable		(197,315 )	44,542	3,597
Inventories	(49,021 )	26,559	(825,908 )	(66,704 )
Other current assets	(20,726 )	2,358	(100,581 )	(8,123 )
Trade accounts payable	476,075	(829,250 )	891,979	72,040
Other payables and accrued liabilities	(88,701 )	(14,668 )	1,196,614	96,644
Employee profit sharing	5,851			
Deferred income tax	(397,611 )	(343,737 )	(337,671 )	(27,272 )
Other payables	207,963	1,547	(136,205 )	(11,001 )
Deferred employee profit sharing	(197 )			
Net cash flow provided by (used in) operating activities	261,542	(244,103 )	351,105	28,355
<b>INVESTING ACTIVITIES:</b>				

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Property and equipment	(237,603 )	(31,603 )	(137,203 )	(11,081 )
Investment in associates			(1,509 )	(122 )
Other assets	(35,122 )	(107,549 )	(47,621 )	(3,846 )
Acquisition of business	(739,957 )		(5,914,728)	(477,699)
Goodwill, intangible assets and deferred charges		(296,983 )	168,810	13,634
Interest earned	11,817	5,076	199,528	16,115
Net cash used in investing activities	(1,000,865)	(431,059 )	(5,732,723)	(462,999)
<b>FINANCING ACTIVITIES:</b>				
Short-term and long-term debt	1,053,000	1,050,649	6,544,166	528,536
Employee benefits	(41,002 )	(25,435 )	(46,223 )	(3,732 )
Interest paid	(185,726 )	(257,182 )	(493,430 )	(39,852 )
Dividends paid	(170,000 )	(170,000 )		
Net cash flow provided by financing activities	656,272	598,032	6,004,513	484,952
Effect of changes in cash value		140,130	3,310	267
(Decrease) increase in cash and cash equivalents	(83,051 )	63,000	626,205	50,575
Cash and cash equivalents at beginning of year	684,312	601,261	664,261	53,649
Cash and cash equivalents at end of year	Ps. 601,261	Ps. 664,261	Ps. 1,290,466	Ps. 104,224

The accompanying notes are an integral part of these consolidated financial statements

Table of Contents**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

AS OF DECEMBER 31, 2008, 2009 AND 2010

(AMOUNTS STATED IN THOUSANDS OF MEXICAN PESOS (PS.) AND THOUSANDS OF U.S. DOLLARS (\$), EXCEPT AS INDICATED OTHERWISE)

## 1. Description of business:

Grupo Casa Saba, S.A.B. de C.V. is a Mexican controlling company, which mainly distributes pharmaceutical products, as well as health and beauty aids/other products, entertainment products (including magazines and books), food/non-perishable products through its operating subsidiaries (grouped in controlling subsidiaries directly or indirectly). The Group, as an economic unit, distributes these product lines through its distribution network to supermarket chains, pharmacies (private and governmental) and retail customers throughout Mexico, as well as Rio de Janeiro, Brasil and, effective 2010, Chile and Peru. The Group considers all of its operations and reporting the results of all of its operations to management as discussed in Note 18.

The shares of Grupo Casa Saba, S.A.B. de C.V. are listed on the Mexican Stock Exchange as Ordinary Shares, as well as on the New York Stock Exchange as American Depositary Shares (ADS). Each ADS represents ten Ordinary Shares.

When the terms “the Company” or “the Holding Company” are used in the notes to the financial statements, they refer to Grupo Casa Saba, S.A.B. de C. V. without its consolidated subsidiaries. When the term “the Group” is used, it refers to Grupo Casa Saba, S.A.B. de C. V. together with its consolidated subsidiaries. When it is deemed relevant, certain amounts presented in the notes to the financial statements include a translation into Mexican pesos. These translations should not be construed as a representation that the amount in Mexican pesos actually represents or could be converted at the exchange rates used.

The individual and consolidated financial statements and their pertinent notes were authorized to be issued by the Board of Directors on March 30, 2011, and they will be submitted for approval of the Stockholders’ Meeting held on April 29, 2011. The stockholders have the power to amend the financial statements subsequently issued, as provided for in the General Corporate Law and the Company’s bylaws.

## Main subsidiaries and associates

The Company holds the issued and outstanding capital stock of the following subsidiaries that are members of the Group:

		Economic Interest (Direct or indirect)	
		2009	2010
Domestic subsidiaries:			
Direct interest			
Casa Saba, S.A de C.V.	(Casa Saba)	48.21% (*)	48.21%
Distribuidora Casa Saba, S.A. de C.V.	(Dicasa)	99.9%	99.9%
Publicaciones Citem, S.A. de C.V.	(Citem)	99.9%	99.9%
Transportes Marproa, S.A. de C.V.	(Marproa)	99.9%	99.9%
Farmacias ABC de México, S.A. de C.V.	(Farmacias ABC)	99.9%	99.9%
Controladora de Clínicas Ambulatorias y de Rehabilitación Sports Clinic, S.A. de	(Clínicas Ambulatorias)	50.005%	50.005%

C.V.

Centennial, S.A. de C.V.	(Centennial)	99.9% (*)	99.9%
Grupo Mexatar, S.A. de C.V.	(Mexatar)	99.9% (*)	99.9%

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		Economic Interest (Direct or indirect)	
		2009	2010
Controladora Casa Saba, S.A.de C.V.	(Controladora Casa Saba)	99.9%	99.9%
Real estate and other service companies	(20 subsidiaries)	99.9%	99.9%
<b>Indirect interest</b>			
Casa Saba		51.79 (*)	51.79%
Distribuidora Drogueros, S.A. de C.V.	(Didrosa)	99.9%	99.9%
Daltem Provee Norte, S.A. de C.V.	(Daltem Norte)	99.9%	99.9%
Drogueros, S.A. de C.V.	(Drogueros)	99.9%	99.9%
Farmacias Provee de Especialidades, S.A. de C.V.)	(Farmacias Provee)	99.9%	99.9%
Servicios Corporativos Drogueros, S.A. de C.V.	(Secodro)	99.9%	99.9%
Inmuebles Visosil, S.A. de C.V.	(Visosil)	99.9%	99.9%
Servicios Corporativos Saba, S.A. de C.V.	(Secosa)	99.9%	99.9%
Other service companies	(4 subsidiaries)	99.9%	99.9%
<b>Foreign subsidiaries:</b>			
Casa Saba Brasil Holdings Ltda. (Brasil **)	(CS Brasil)	100.0%	100.0%
Farmacias Ahumada, S.A. (Chile ***)	(FASA)		97.8%
<b>Associates:</b>			
Lomas Sports Clinic Ambulatorias, S.A. de C.V.		36.2%	36.2%
WTC Sports Clinic Ambulatorias, S.A. de C.V.		47.0%	47.0%
Resonancia Sports Clinic, S.A. de C.V.		49.9%	49.9%
Servicios Corporativos Sports Clinic, S.A. de C.V.		49.9%	49.9%
Tampico Sports Clinic Ambulatorias, S.A. de C.V.		49.6%	49.6%
Inmobiliaria Avantuen, S.A. (****)			49.0%
Inmobiliaria Faster (****)			49.0%

(\*) During 2009, Management made internal changes in the stock structure among these Group's subsidiaries (subparagraphs e) and f) hereinbelow).

(\*\*) CS Brasil holds 100 percent of the issued and outstanding capital stock of CSB Drogarias, S.A. (CSB Drogarias) in Brasil.

(\*\*\*) Farmacias Ahumada, S.A. (FASA) is an entity incorporated in accordance with the laws of Chile, which was acquired by the Company on October 3, 2010. FASA is registered in the Securities Registry of the Superintendence

of Securities and Insurance (SVC-Spanish acronym) of Chile, and it trades its shares on the Chilean securities market. FASA holds 99.9 percent of the shares representative of the capital stock of Fasa Chile, S. A. and its subsidiaries (9 Chilean and one Uruguayan), as well as 99.9 percent of the shares of Fasa Investment, Ltda. In turn, Fasa Investments, Ltda. holds 100 percent of the shares of Farmacias Peruanas, S. A. and its subsidiary, as well as 95.6 percent of the shares of Farmacias Benavides, S.A.B. de C. V. and three subsidiaries. Farmacias Benavides is a company listed on the Bolsa Mexicana de Valores, S.A.B. de C. V.

(\*\*\*) Associates with shareholdings held by FASA.

During 2009 and 2010, the Company's management and its stockholders approved the following agreements to strengthen its corporate structure, as well as to facilitate its consolidated operations. Management constantly reviews its strategies to adapt to any economic changes that may arise.

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a) Through an assignment agreement of documents pending collection, dated November 30, 2009, the Group's subsidiaries Casa Saba and Drogueros sold certain collection rights applicable to individuals and legal entities to the Company at a discount in the amount of Ps. 133,074 and Ps. 15,796, respectively. The sales price of the assignment agreed upon amounted to Ps. 86,639 and Ps. 9,666, respectively.

b) Through an assignment agreement of documents pending collection, dated November 30, 2010, the Group's subsidiaries Casa Saba and Drogueros sold certain collection rights applicable to individuals and legal entities to the Company at a discount in the amount of Ps. 488,441 and Ps. 30,994, respectively. The sales price of the assignment agreed upon amounted to Ps. 340,444 and Ps. 20,188, respectively.

c) Through a stock purchase agreement dated May 15, 2008, CS Brasil acquired all of the issued and outstanding shares of capital stock of Drogasmil (now CSB Drogarias), thereby obtaining control thereof. CS Brasil mainly operates as a holding company of companies that sell pharmaceutical products through retail pharmacies in that region. The agreed upon sales price amounted to R\$182,500 thousand, less working capital amounting to R\$27,525 thousand (Ps. 911,253, approximately). As a result, an excess of the acquisition cost over the carrying value of the net assets acquired was determined in the amount of R\$157,189 thousand (Ps. 924,271, approximately). As part of the agreements, CS Brasil carries a contingent consideration liability that will be paid unless certain events occur in the future. The contingent liability is recorded in the amount of R\$9,585 thousand, which is included in the line item "Other payables" in long-term in the consolidated balance sheet.

At the acquisition date, the Group had recorded a preliminary purchase price allocation based on the estimated value of the net assets identified from the business acquired, because of inadequate accounting records of Drogasmil at December 31, 2008. However, at the date of the auditor's report, the Group completed analyzing and clearing the accounting records of Drogasmil regarding inventories value in the amount of Ps. 246,000 and Ps. 217,000 in 2008 and 2009, respectively, as well as certain unquantifiable contingencies at those dates. Consequently, the final allocation of purchase price was performed by the Group in accordance with Mexican FRS B-7, "Business acquisitions" (FRS B-7), which recognizes the "purchase method" as the sole valuation standard. Therefore, the Group determined that changes were not generated in the preliminary allocation of the purchase price of the net assets acquired at the acquisition date as a result of the final distribution of the price paid for those assets by taking into account the new information and available evidence subsequent to the acquisition date. In addition, the preliminary value of goodwill recorded at the acquisition date was not changed either as a result of the matter discussed above.

d) Through a stock purchase and sale promise agreement dated May 17, 2010, amended by private instruments of June 16 and August 9, 2010, the Company bound itself to acquire 97.8 percent of the shares issued and outstanding representative of the capital stock of FASA through a Public Offering of Acquisition and Control. The Company obtained control thereof effective October 3, 2010, in accordance with the notice of the result of the public offering. The acquisition was carried out through Controladora Casa Saba, which operates mainly as a controlling company of companies that sell pharmaceutical products through retail pharmacies. The agreed upon sales price amounted to \$240,870,791 thousand, in connection with 146,693,539 shares at a price of Chilean pesos \$1,642 per share (approximately Ps. 6,201,240, approximately).

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At the acquisition date, the Group recorded the purchase price allocation based on the estimated fair value of the net assets identified and noncontrolling interest in the business acquired. The purchase price allocation was performed in accordance with Mexican FRS B-7 abovementioned. As a result, the Company determined identifiable intangible assets related to trademarks that will generate expected future economic benefits that will be controlled by the Group. Management considers that the value of those intangible assets is included in the fair value of the transaction, which had not been recognized by FASA since it was not permitted by accounting standards. Those assets with undefined economically useful lives were valued by independent experts, which amounted to approximately Ps. 3,971,000, (Note 10). Therefore, an excess of the cost of acquisition over the estimated fair value of the net assets acquired and the noncontrolling interest was determined in the amount of Ps.2,590,378 (Note 10), which represents the amount of unidentifiable or inseparable intangible assets, in accordance with the accounting standard referred to above.

At the acquisition date, the unaudited consolidated balance sheet of FASA, translated in accordance with Mexican FRS, reflected the following condensed financial information:

	September 30, 2010
Current assets	Ps. 4,231,440
Property and equipment	2,374,094
Intangible assets and deferred charges	2,178,476
Other assets	206,041
	Ps. 8,990,051
Total liabilities	Ps. 7,482,017
Stockholders' equity	1,508,034
Total liabilities and stockholders' equity	Ps. 8,990,051

As a result of the transaction discussed above, the consolidated financial statements of the Group at December 31, 2010 include the balance sheet of FASA at that date, as well as its results of operations as of the date on which the Company took control over FASA. At December 31, 2010, the consolidated balance sheet of FASA and its subsidiaries reflected the following condensed financial information, translated in accordance with Mexican FRS.

	December 31, 2010 (audited amounts)
Current assets	Ps. 4,971,856
Property and equipment	2,327,395
Intangible assets and deferred charges	2,131,547
Other assets	389,952
	Ps. 9,820,750
Total liabilities	Ps. 8,278,101
Stockholders' equity	1,542,649

Total liabilities and stockholders' equity	Ps. 9,820,750
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The condensed results of operations of FASA from the date of acquisition to December 31, 2010, translated in accordance with Mexican FRS, is as follows:

	Amounts
Net sales	Ps. 4,280,919
Operating income	83,763
Loss before taxes on earnings	(113,335 )
Loss net	(101,479 )

The acquisition of FASA is a strategy of the Company to invest in the pharmaceutical product distribution industry through retailers. FASA sells personal care and hygiene products, beauty products, as well as products for babies, photography developing services, among other things. FASA operates in Chile, Mexico, and Peru through Farmacias Ahumada, S. A., Farmacias Benavides, S.A.B. de C. V., and Farmacias Peruanas, S.A., respectively. At December 31, 2010, those subsidiaries held 343, 723, and 196 pharmacies, respectively.

Pro forma condensed financial information of results (unaudited)

In accordance with Mexican FRS, the Group presents pro forma condensed statements of income at December 31, 2010, whereby the acquisition of FASA goes into effect as if it had occurred on January 1, 2010. This is based on the information available which is considered reasonable. The pro forma financial information presented is not a reflection of the results that would have been obtained as if the transactions had occurred effectively at the beginning of the year, and it should not be construed as representative of future results.

	2010		
	Grupo Casa Saba	Farmacias Ahumada	Grupo Casa Saba Pro forma
Net sales	Ps.28,933,851	Ps.19,874,248	Ps.48,808,099
Cost of sales	25,395,827	14,957,202	40,353,029
Operating expenses	2,937,189	4,671,073	7,608,262
Other (income) expenses, net	(58,048)	125,505	67,457
Comprehensive gain or loss on financing, net	221,350	217,395	438,746
Equity on income of associates		(6,222)	(6,222)
Taxes on earnings	65,983	(44,140)	21,843
Net income (loss)	Ps. 371,550	Ps. (46,565)	Ps. 324,984

e) In December 2009, the General Ordinary Stockholders' Meeting of the subsidiary Casa Saba approved a capital stock increase in the amount of Ps. 1,854,874, by issuing 1,854,873,547 common shares with par value of one peso each. That increase was subscribed by the subsidiary Marproa. Consequently, at December 31, 2009, Marproa holds 51.79 percent of the shares issued by Casa Saba.

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f) In December 2009, the Company acquired the total shares except one share of fixed and variable capital stock of the subsidiaries, Centennial, Distribuidora Citem, Mexatar, and Estrella del Este, S. A. de C. V. (Estrella del Este and Distribuidora Citem are included in “Real estate and other service companies”). As a result, those entities were converted into subsidiaries of direct interest.

2. Basis of presentation:

The accompanying financial statements have been prepared based on Mexican Financial Reporting Standards (Mexican FRS), in effect at the date of the financial statements, issued by the Research and Development Board of Financial Reporting Standards (CINIF-Spanish acronym).

Certain accounting principles applied by the Group in accordance with Mexican FRS differ in certain material respects to U.S. GAAP, as discussed in Note 21. A partial reconciliation of the consolidated net income and stockholders’ equity from Mexican FRS to U.S. GAAP is included in Note 22. The most significant Mexican FRS followed by the Group is described in Note 3) below.

Convenience translation

The accompanying consolidated financial statements have been translated from Spanish into English for the convenience of readers outside of Mexico. The consolidated financial statements are stated in Mexican pesos. U.S. dollar amounts shown in the accompanying financial statements were calculated based on the amounts in Mexican pesos at December 31, 2010. They have been included solely for the convenience of the reader and are translated from Mexican pesos as a matter of arithmetic computation only by using the rate of Ps.12.3817 (pesos) per U.S. dollar as quoted by Banco de Mexico in the Official Daily Gazette at December 31, 2010. The convenience translation should not be construed as a representation that the Mexican peso amounts have been, could have been, or in the future could be translated into U.S. dollars at this or any other exchange rate.

3. Significant accounting policies:

As a result of the acquisition of Farmacias Ahumada, S. A. discussed in Note 1d) above, the consolidated financial statements of the Group at December 31, 2009 originally issued contain some reclassifications and groupings to make them comparable with those of 2010, which are summarized in the following chart. Management estimates that these reclassifications and groupings had no impact on the overall consolidated financial statements.

As reclassified		Amount	As previously reported		Amount
Accounts receivable, net	Ps.	5,228,320	Accounts receivable, net	Ps.	6,123,869
Other accounts receivable		895,549			
Property and equipment, net		1,400,188	Property and equipment, net		1,355,863
Other assets, net		25,764	Other assets, net		265,312
Goodwill, intangible assets and deferred charges, net		1,686,474	Goodwill		1,391,290
	It said	Amount			
	Prepaid expenses	Ps. 45,971 (*)			
	Deferred income tax	99,961 (*)			

Employee	4,000
profit	(*)
sharing	

(\*) These line items and amounts were reclassified to “Other current assets”, “Goodwill, intangible assets, and deferred charges, net”, and “Other payables and accrued liabilities”, respectively.

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a) Use of estimates

Preparing the accompanying financial statements requires the Group's management to make certain estimates and use certain assumptions to determine the valuation of certain assets and liabilities, disclose contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses incurred during the periods. Those estimates and assumptions are made on a going concern basis and they are continuously reviewed by using the available information.

The most significant line items subject to the above-mentioned estimates and assumptions apply mainly to the allowance for doubtful accounts, allowance for slow-moving inventories, financial instruments, property and equipment, intangibles assets and goodwill, certain provisions, labor obligations derived from defined benefits, taxes on earnings and valuation of contingencies. Actual results may differ from these estimates and assumptions.

b) Basis of consolidation

The accompanying financial statements are presented on a consolidated basis, which include those of the Company and all of its subsidiaries (held directly or through its controlling subsidiaries) in which the Company holds more than 50 percent of the common shares and/or has administrative control, as well as Special Purpose Entities. Control exists when there is power, directly or indirectly, to govern the financial and operating policies of an entity to obtain benefits from its activities. The accounting consolidation is made from the date on which the subsidiaries are acquired, incorporated and/or the control is held up to the date when they are disposed of and/or at the fiscal year end of the last year reported. For that purpose, the Group uses the subsidiaries' audited financial statements, prepared in accordance with Mexican FRS. The consolidated financial statements are prepared at the same date and for the same period.

Investments in associates are initially recorded at acquisition cost. They are subsequently valued by using the equity method when the Company has significant influence. The Group uses audited financial statements of the associates for that purpose, prepared in accordance with Mexican FRS. Consequently, the Company records in income the proportionate share of the gains or losses reported by the associates and in stockholders' equity, the variations of the other stockholders' equity accounts. Significant influence is presumed to exist when equity ranges between 10 percent and 50 percent in public companies, and between 25 percent and 50 percent in non-public companies, unless it is proven that the Company has significant influence with a lower percentage.

The Company does not recognize additional losses when its equity in losses in a subsidiary or associate exceeds its shareholdings, unless there are obligations or commitments that are legal or assumed by the Company.

At December 31, 2010, the Group incorporated the entity named Sociedad Fondo de Inversion Privado Retail Chile into the accounting consolidation. This Company exclusively invests in negotiable instruments of Farmacias Ahumada, S. A. or its subsidiaries.

All significant intercompany balances and transactions are eliminated from the Group's consolidated financial statements.

Effective January 1, 2009, the Company adopted Mexican FRS B-8, "Consolidated or combined financial statements" (FRS B-8), which superseded Bulletin B-8, "Consolidated and combined financial statements and valuation of permanent investments". The main changes are related to the obligation to consolidate the Special Purpose Entities for accounting purposes. This standard sets forth the terms "Controlling interest" and "noncontrolling interest" instead of "majority interest" and "minority interest", respectively. Noncontrolling interest should be valued at fair value at the acquisition date of the subsidiary. Adoption of this provision by the Group had no impact on its consolidated financial

statements.

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## c) Statements of income and statements of cash flows

The accompanying statements of income present costs and expenses based on their function, which are presented in generic captions in connection with their contribution to the different levels of income or loss. The cost of sales is separated from the other costs and expenses to present the level of gross profit.

The statements of cash flows, prepared under the indirect method in a non-inflationary economic environment, present the cash inflows and outflows of the period in nominal monetary units, therefore, they exclude the inflation impact.

## d) Recognition of the impact of inflation on the financial information

i) In accordance with Mexican FRS B-10, "Impact of Inflation" (FRS B-10), the financial statements that recognize the impact of inflation are those relative to an entity whose functional currency applies to a country in which there is an inflationary economic environment. FRS B-10 recognizes two economic environments, one results in the recognition of the impact of inflation and the other does not: a) inflationary (inflation equal to or higher than 26% accumulated in the three annual prior years); and b) non-inflationary (inflation below that percentage in the period referred to above). The percentage of inflation of the year and accumulated inflation of the three annual prior years in Mexico, as measured by the National Consumer Price Index (INPC-Spanish acronym), was as follows:

	Inflation	
	December 31	Annual Accumulated
2010	4.6%	19.7%
2009	3.6%	14.4%
2008	6.5%	10.4%
2007	3.7%	3.7%

The percentage of inflation of the year in foreign transactions was as follows:

	Inflation		
	December 31	Brasil	Chile Peru
2010	5.9%	1.72%	2.08%
2009	4.3%	-1.38%	0.25%
2008	5.9%	7.09%	6.65%
2007	4.5%	7.82%	3.93%

ii) Pursuant to the foregoing, the Group has not recognized the impact of inflation effective January 1, 2008, due to the non-inflationary economic environment existing in Mexico, Chile, Brasil and Peru. Consequently, the amounts of statements of income and cash flows are presented in nominal Mexican pesos. Through December 31, 2007, the Group recognized the effect of restatement regardless of the level of inflation. Should the economic environment change to inflationary, the Group will retrospectively recognize the impact of inflation not recognized in the periods in which the economic environment was non-inflationary, by applying the "comprehensive method" set forth by FRS B-10.

iii) Through December 31, 2007, the last date on which the Group operated in an inflationary economic environment, the impact of inflation was recognized in accordance with Bulletin B-10, "Recognition of the impact of inflation on the financial information (integrated document)", which was superseded by Mexican FRS B-10. That effect is maintained in the financial statements of the last year reported.

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Through December 31, 2007, stockholders' equity was restated based on the INPC factor by considering the age of contributions and that of earnings or losses generated. The stockholders' equity restatement represents the amount necessary to maintain shareholders' investment in terms of the 2007 fiscal year purchasing power of the currency.

## e) Translation of financial statements of foreign operations

The accounting records of the foreign subsidiaries are maintained in the recording currency of the country where those subsidiaries are established. Their financial statements are prepared in conformity with International Accounting Standards (IFRS) of the International Accounting Standards Committee (IASC). Therefore, their financial statements are adjusted to Mexican FRS prior to their translation and consolidation. The translation is carried out in accordance with Mexican FRS B-15, "Foreign currency translation" (FRS B-15). Toward that end, those financial statements are determined in their functional currency and restated by applying rate of inflation at which the foreign operation operates, depending upon whether the information comes from an inflationary or non-inflationary economic environment, in accordance with FRS B-10. Subsequently, they are translated into the reporting currency as discussed in the following paragraph.

The Group's foreign operations operate in a non-inflationary economic environment and its functional currencies are the Brazilian real, Chilean peso and Peruvian peso. Accordingly: (i) monetary and nonmonetary assets and liabilities were translated at the year end exchange rate published by Banco de Mexico, and, the stockholders' equity at the historical exchange rate; and (ii) revenues and expenses were translated at the average exchange rate for the period. The translation adjustment is included in the "Accumulated translation effect" and forms part of comprehensive income. Moreover, it is recycled to income at the date of its availability. That line item includes, if applicable, foreign exchange fluctuations, as discussed in subparagraph q) below.

At December 31, 2009 and 2010, the translation effect amounted to Ps. 137,585 and Ps. 140,895, respectively, net of income tax. The year end and average exchange rates used in the translation process were as follows:

	2009		2010	
	Year end	Average	Year end	Average
Chilean peso	38.78	41.42	37.89	40.40
Brazilian real	7.49	6.89	7.42	7.19

## f) Cash and cash equivalents

The balance of this line item consists of amounts available in cash and cash equivalents available for the Group's operations. Cash equivalents consist of investments in highly liquid securities. When such securities are acquired, they have a maturity date of ninety days or less. They are payable on demand at market variable interest rates, and they are not subject to significant foreign exchange risks in their values. Those investments are valued at cost plus accrued interest. Interests and exchange fluctuations form part of the comprehensive gain or loss on financing.

## g) Other current assets

Other current assets consist of: (i) payments for services that will be received in the following twelve months; (ii) fair value of the derivative financial instruments that mature in less than one year; (iii) prepaid expenses that consist mainly of rents, insurance, and surety bonds that are expensed when the services or benefits are received; and (iv) available-for-sale assets.

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h) Financial instruments

All financial assets and financial liabilities derived from any type of financial instrument are assessed at fair value and recognized in the balance sheet. The valuation effect, as well as costs and returns generated by financial instruments, form part of the comprehensive gain or loss on financing when incurred or earned.

At December 31, 2009 and 2010, the carrying value of financial instruments approximates their estimated fair value due to their short-term nature. Long-term debt incurred through bank loans and marketable bonds consider instruments with similar terms and due dates existing on the market, which accrue variable market prevailing financing rates.

Derivative financial instruments

These transactions are contracted to significantly hedge interest rate, exchange rate or inflation risks in hedged underlying transactions. The designation of hedges is documented by describing the strategy and objective of management of risks, hedged risks, identification of the hedged primary position, its accounting recognition, and how its effectiveness is measured. Management estimates that the changes in cash flows of the derivative financial instrument maintain high effectiveness in offsetting the changes in cash flows of the primary position, both at the beginning and throughout the relationship of the designated hedge. That effectiveness is maintained in an 80 percent-125 percent range of reverse correlation, in accordance with Mexican FRS. The Company does not carry out derivative instruments trading.

The assets and liabilities that apply to derivative financial instruments are presented in the balance sheet at their estimated fair value determined based on recognized market prices. The effective portion of gains or losses on the cash flow hedging financial instrument is recognized in the comprehensive income account in stockholders' equity, and it is included in income as the amount of the hedge is exercised.

i) Allowance for doubtful accounts

The allowance for doubtful accounts represents the Group's estimate of the probable loss in all trade receivables by considering the historical trend of payment performance of customers and factors surrounding the specific credit risk.

j) Inventories

Inventory value is presented at the lower of its acquisition cost or market. During high inflationary periods, inventories are restated by using INPC factors, by considering the guidelines of Mexican FRS B-10. The Group analyzes its inventory balances to determine if any portion of their balance requires the need for an adjustment to the allowance or if it should be increased, due to the occurrence of adverse events such as physical damage, obsolescence, expiration, etc. The cost of sales represents the inventories acquisition cost at the time when they are sold.

k) Property and equipment

Property and equipment are initially recorded at acquisition cost. When inflationary accounting is applied in high inflationary periods, those assets are restated by using INPC factors applicable to the country where those assets are established, in accordance with Mexican FRS B-10. Through December 31, 2007, the last date on which the Group operated in an inflationary economic environment, the value of those assets was restated by using the applicable INPC factors.

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Depreciation is calculated on the value of property and equipment restated when the inflationary economic environment is applied, as well as on the acquisition cost when the economic environment is not inflationary, in accordance with Mexican FRS B-10, by applying the straight-line method based on the remaining economic useful life thereof.

The Group periodically assesses the carrying value of long-lived tangible and intangible assets, including goodwill and permanent investments in associates, to establish whether significant adverse events, changes in the operating business environment and/or changes in expectations regarding operating income for each cash generating unit, indicate that the carrying value of those assets may not be recoverable, in accordance with Mexican Bulletin C-15, "Impairment of the value of long-lived assets and their related disposal" (Bulletin C-15). In such event, an impairment loss is determined by the excess of the carrying value of long-lived assets over the "value in use", which consists of determining the net present value of estimated cash flows to which those assets relate. The impairment loss, if any, is recorded as a charge to operations in "Other (income) expenses, net" in the period when such an assessment is carried out, unless indications noted are of a temporary nature. Mexican Bulletin allows the reversal of the recognition of impairment under certain circumstances. At December 31, 2009 and 2010, Management determined that there were no impairment indications on the carrying value of property and equipment and investments in associates.

Property and equipment available-for-sale are assessed on the date on which the sales plan is approved at the lower of its net carrying value and its fair value, less associated sales costs. Those assets are not subject to depreciation.

l) Business acquisitions, intangible assets and goodwill

(i) Business acquisitions

The Company recognizes business acquisitions based on Mexican FRS B-7, "Business acquisitions" (FRS B-7). Consequently: (i) the purchase method is used as the sole valuation standard by allocating the purchase price to the net assets acquired and the noncontrolling interest based on their estimated fair value at the acquisition date; (ii) intangible assets acquired are identified and recognized at its estimated fair value; (iii) the unallocated portion of the purchase price that is not identifiable is included as goodwill, which is allocated to the cash flow generating unit in order to periodically evaluate the impairment. If applicable, the goodwill value is adjusted for any correction to the preliminary value allocated to the net assets acquired and the noncontrolling interest, within the twelve months subsequent to the acquisition date; and (iv) valuation is performed with certain exceptions to the use of fair value, in that event the pertinent Mexican FRS is applied. Acquisition-related costs and restructuring expenses are recorded in income when incurred.

The Company recognizes the excess of fair value of net assets acquired over the consideration paid as a bargain that: (i) it reduces the value of the assets of the business acquired until they are exhausted. That adjustment is recognized in the acquiring Company; and (ii) the remaining balance is recognized as an unordinary gain at the acquisition date.

(ii) Intangible assets

Intangible assets are identifiable nonmonetary assets, with no physical substance that represent costs incurred or rights acquired, which will generate future economic benefits controlled by the Group. Intangible assets are initially recorded at acquisition cost represented by cash or cash equivalents paid or at their estimated fair value at acquisition date if they are from a business acquisition. They are classified as definite lived or indefinite lived intangible assets, in accordance with the period in which benefits are expected to be received. When inflation accounting is applied in high inflationary periods, those assets are restated by using INPC factors applicable to the country where those assets are established, in accordance with Mexican FRS B-10. Through December 31, 2007, the last date on which the

Group operated in an inflationary economic environment, the value of those assets was restated by using the applicable INPC factors.

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### Intangible assets with definite useful life

These assets are amortized on their restated value when the economic environment is inflationary, as well as on the acquisition cost when the economic environment is not inflationary, in accordance with Mexican FRS B-10. Toward that end, the straight-line method is applied based on its remaining economic useful life. These assets are represented mainly by licenses related to the technological platform with which the Group operates. Development expenses are recorded as intangible assets, provided that their technical viability and economic profitability are reasonably assured. Leasehold improvements are amortized on a straight-line basis, in accordance with the lower of the useful life of the asset under a lease agreement or the period set forth in the agreement. Research expenses are expensed when incurred.

### Intangible assets with an indefinite useful life

These intangible assets, including goodwill, are subject to periodic impairment tests, in the event of impairment indicators or at least once a year, by applying the “value in use” method of the cash generating units and taking into account a horizon whose projections do not establish growth rates beyond five years, unless a greater period is justified in accordance with Mexican Bulletin C-15 referred to above. Toward that end, “perpetuity value” is applied which considers two stages: (i) the generation of excess of value in use of assets other than intangible assets with indefinite useful life and goodwill (“excess value in use”); and (ii) the recovery of intangible assets and goodwill referred through perpetuity. Perpetuity value results from “excess value in use” between projected periods, discounted at an appropriate discount rate. Therefore, the impairment loss is generated by the excess of carrying value over perpetuity value referred to above. If goodwill and another intangible asset with indefinite useful life are subject to impairment at the same time, the resulting loss is applied to goodwill first.

The Group considers that the value in use through its cash flow projections is the best estimate of future cash flows from continued use of the cash generating unit. Therefore, the cash flow projection models recognize medium and long-term economic variables fairly at the time of the calculation, which are related to the future estimated price of products, changes in operating expenses, industry economic trends, and discount and growth rates applied in perpetuity.

With the purchase of FASA, the Company recognized certain commercial trademarks as intangible assets that had been previously acquired independently by FASA, which were appraised by independent experts (Note 1d).

### m) Lease

#### Operating lease

Total payments are charged to operating income for the period. Upon termination of the contract, any payment for penalties or indemnifications is recorded in income.

#### Financial leasing

Property or real property under lease agreements when the Company substantially holds all the risks and benefits of ownership is classified as financial leasing. Financial leasing is capitalized at the inception of the lease at the lower of fair value of the property under the lease agreement or the present value of minimum payments.

Obligations under financial leasing, net of financial charges are included in other short or long-term payables. The financial cost is expensed during the lease term. The asset acquired is depreciated in accordance with the Company’s policies.



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n) Provisions, contingent assets and liabilities and commitments

The Group recognizes the liabilities of present obligations on which the transfer of assets or the rendering of future services are unavoidable, and arise as a consequence of past transactions or events. Provisions are recognized when present, legal or assumed, obligations are unavoidable and will require the disbursement of economic resources or can be reasonably estimated.

Significant obligations or losses related to contingencies are periodically evaluated. They are accounted for when it is likely that present obligations will require the disbursement of economic resources, and there are reasonable elements for their quantification. If there are no such reasonable elements, the contingencies are disclosed in the notes to the financial statements. Contingent revenues, income or assets are only recognized when their realization is practically certain.

Commitments are not recognized unless they result in a loss. Commitments are disclosed when they represent significant additions of fixed assets, goods or services contracted that substantially exceed the immediate needs of the Group or represent contractual obligations.

o) Labor obligations

i) The Group recognizes the labor obligations derived from defined benefits for retirement pensions and seniority premiums, as well as severance benefits to employees for termination of the employment relationship (legal ordinary indemnifications) when they complete the employment relationship prior to the retirement age which is not associated to a restructuring event. Costs are recognized in income as employees render their services. Toward that end, actuarial computations are applied to the present value of labor obligations. Retirement pensions are granted to all personnel that have completed at least ten years of pension service and have reached sixty-five years of age. Seniority premiums are granted for a voluntary separation of personnel after completing fifteen years of service and then calculated based on the number of years worked. Severance benefits for termination of the employment relationship are granted by Law in the event of a dismissal, based on the years of service and last salary of personnel.

Defined benefit obligations, unamortized items, and the net periodic cost applicable to labor obligations referred to above are determined by using the “projected unit credit method”. Severance benefits which arise from restructuring causes should continue to follow the Mexican Bulletin C-9, “Liability, provisions, contingent assets and liabilities, and commitments” of Mexican FRS.

The Group has created a fund placed in an irrevocable trust with a financial institution to meet the labor obligations derived from defined benefits. During 2009 and 2010, the contributions to the fund amounted to Ps.20,696 and Ps. 9,668, respectively. Fund assets consisted of investments in equity securities and investments in fixed income securities that are traded on the Mexican Stock Market. Those investments are valued at estimated fair value at the date of the financial statements.

ii) The relevant information of the actuarial computation on labor obligations derived from defined benefits is summarized below. Interest rates and actuarial assumptions used for reflecting the present value of obligations and expected returns on assets discussed hereinbelow consider the use of nominal rates, due to the non-inflationary economic environment in which the Group operates.



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	December 31,	
	2009	2010
Labor liability		
Accumulated benefit obligation	Ps. 133,213	Ps. 146,250
Additional benefit related to future compensation increases	96,758	151,639
Defined benefit obligation	229,971	297,889
Fair value of plan assets	96,698	96,323
Funded status	133,273	201,566
Unrecognized net transition obligation	(20,884 )	(13,566 )
Negative plan amendments	9,072	8,951
Unrecognized net loss	(53,300 )	(108,339 )
Unfunded accrued pension cost, seniority premium and severance benefits to be recognized		
Mexico	68,161	88,612
Chile		59,098
Total	Ps. 68,161	Ps. 147,710

	December 31,	
	2009	2010
Net periodic cost		
Service cost	Ps. 11,297	Ps. 10,846
Interest cost	18,816	20,844
Expected return on plan assets	(7,597 )	(9,236 )
Amortization of unrecognized net transition obligation	7,804	7,318
Amortization of plan amendments	(495 )	(491 )
Amortization of unrecognized net loss	2,052	2,009
Other	(409 )	
Net periodic cost Mexico	31,468	31,290
Net periodic cost Chile		35,700
Total	Ps. 31,468	Ps. 66,990

	Mexico		Chile
Assumptions:	2009	2010	2010
Discount rate	9.2%	7.8%	8.0%
Salary increase rate	4.0%	4.5%	4.0%
Return of plan assets	9.8%	9.8%	9.0%

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	December 31,	
	2009	2010
Change in projected benefit obligation		
Actual projected benefit obligation at beginning of year	Ps. 213,300	Ps. 229,971
Service cost	11,297	10,846
Interest cost	18,816	20,844
Actuarial loss	10,073	59,790
Benefits paid	(21,639 )	(22,679 )
Effect on curtailment on benefit obligation	(1,177 )	(884 )
Effect on settlement on benefit obligation	(699 )	
Projected benefit obligation at end of year	Ps. 229,971	Ps. 297,889
Change in plan assets		
Fair value of plan assets at beginning of year	Ps. 79,163	Ps. 96,698
Actual return on plan assets	11,798	3,314
Employer contributions	20,696	9,668
Benefits paid	(14,959 )	(13,357 )
Fair value of plan assets at end of year	Ps. 96,698	Ps. 96,323
Funded status	Ps. 133,272	Ps. 201,566
Unrecognized net transition obligation	(20,884 )	(13,566 )
Negative amendments (unrecognized prior service cost)	9,072	8,951
Unrecognized net loss	(53,300 )	(108,339 )
Unfunded accrued pension cost, seniority premium and severance benefits to be recognized	Ps. 68,161	Ps. 88,612

iii) The Company has a liability for post employment benefits in favor of twenty workers of the subsidiary Farmacias Benavides, S.A.B. de C.V. in accordance with a specific plan established in January 1987, and in effect up to December 31, 2004. No new beneficiaries of the Plan have been incorporated since that date. The liability is recorded by considering assumptions as future permanence, discount rate, and interest rate, mortality, and future salary increases, determined by actuarial computations. That liability will be liquidated in the medium-term.

iv) At December 31, 2009 and 2010, the amount of the direct short-term benefit due to compensated absences (vacations, sickness, provisional disability, maternity leave, etc.), cumulative and non-cumulative, was recorded.

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v) As of January 1, 2008, resulting from the adoption of new Mexican FRS D-3, the unrecognized net transition obligation, unrecognized prior service cost, and net gain/loss accrued at December 31, 2007, should be amortized to the income statement over a maximum period of five years, while the new actuarial results generated after the adoption of new Mexican FRS D-3 are amortized normally over the employees' estimated active service lives following the corridor method, which requires the actuarial gains and losses in excess of the range between the higher of 10 percent of the plan assets and 10 percent of the defined benefits obligation be: (i) amortized to operating income during the remaining labor life of employees who will receive the benefits; and (ii) expensed as accrued. At December 31, 2008 and 2009, the amortized amount of that item was not material.

In addition, the opening transition asset or obligation is recognized only if a new defined fringe benefits plan is established. Prior services that are derived from the new plan will be amortized during the remaining labor life of employees who will receive the benefits. At December 31, 2009 and 2010, the Group had not established new benefit plans.

The amount of actuarial gains or losses and the prior service benefits for termination of the employment relationship, due to causes other than restructuring, are recognized in income. At December 31, 2009 and 2010, that amount was immaterial.

As a result of the FASA business acquisition, the defined benefits obligation from that Entity at the acquisition date approximated Ps. 59,098.

Employee profit sharing due is recorded based on the amount payable, determined on taxable income that is obtained as provided for in the currently enacted tax legislation. Deferred employee profit sharing is determined by using the "asset and liability method", by applying a 10 percent rate to the temporary differences between book and tax values of assets and liabilities for employee profit sharing purposes, in accordance with the pertinent legislation. At December 31, 2009 and 2010, the deferred employee profit sharing asset amounted to Ps. 19,055 and Ps. 7,868, respectively. Those amounts were offset by a similar valuation allowance, in accordance with Mexican FRS. Employee profit sharing is recognized in income in the line item "Other (income) expenses, net".

p) Income Tax and Corporate Flat Tax (IETU-Spanish acronym)

i) Consolidated taxes on earnings represent the sum of the income tax due and the deferred income tax effect determined by the Company and its subsidiaries, in accordance with currently enacted tax legislation applicable in the different jurisdictions in which each entity operates. Effective January 1, 2008, the Mexican tax authorities enacted the IETU Law, which co-exists with the Income Tax Law to determine the taxes on earnings for the period. Taxes on earnings due in the period are recorded in income.

ii) The consolidated deferred income tax effect represents the sum of the effect determined by the Company and its subsidiaries by applying the "asset and liability method". It further considers the tax losses effect and tax credits from their initial recognition and at the end of each period. Therefore, the deferred income tax liability is recorded for all temporary differences, whereas the deferred income tax asset is only recorded under certain circumstances. For the computation of deferred income tax, tax laws and income tax rates are applied which are enacted or substantially enacted at the closing date of the financial statements by considering the time it is estimated that the temporary differences are realized. In addition, the Group recognizes deferred income tax generated by its investments in associates. Deferred income tax assets and/or liabilities are classified as a non-current item, regardless of the term in which temporary differences are expected to be reversed and materialize. The deferred income tax effect of the year is recorded in income as a component of "provisions for income tax", except for the deferred income tax effect that may be generated by temporary differences attributable to other stockholders' equity accounts. In that event, the deferred

income tax effect is applied to the specific stockholders' equity account that generates it, without being applied to income, in accordance with Mexican FRS.

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The Group performs a periodic valuation allowance review to determine the amount of the deferred asset (income tax and/or employee profit sharing) that “more likely than not” will be realized and recorded based on the available information of each entity. Any reduction in the deferred asset amount that is not realized is recorded in the results of operations and/or stockholders’ equity, by considering the nature of the temporary item. At December 31, 2009 and 2010, the Group determined there was no need for a valuation allowance to be recognized as the deferred asset was deemed to be fully recoverable.

iii) The effect of deferred IETU on Mexican entities is determined on temporary differences, tax losses, and tax credits by applying the “asset and liability method”. For its computation, tax laws and IETU rates are applied which are enacted and substantially enacted at the closing date of the financial statements. The deferred IETU asset and/or liability is classified as a non-current item.

iv) At December 31, 2009 and 2010, the Group determined that the taxes on earnings that will normally be paid by its Mexican subsidiaries (income tax or IETU, the higher) will be that which is obtained from the taxable income base of income tax, which the Group estimates will exceed the taxable income base of IETU, in accordance with a projection based on reasonable assumptions. If the Group determines that IETU will be due based on their estimates and that event will qualify as permanent, the deferred income tax balance will be adjusted to the resulting amount of IETU. If the event is circumstantial, the Group will account for deferred income tax, even though IETU will be due in the period. Management restates this estimate periodically.

v) The Group does not recognize a deferred income tax liability related to its investments in subsidiaries, since it considers that it is in control of the materialization of the temporary differences that arise from these investments, and it is likely that they will not materialize in the foreseeable future.

vi) Effective 2009, the Company’s management decided that some of its significant Mexican subsidiaries were no longer considered as controlled for determining income tax, under the tax consolidation regime. Consequently, as of that date, those subsidiary companies individually meet the tax obligations set forth in the Income Tax Law. In addition, on June 25, 2010, Management filed an additional notice in order for the Company to no longer determine its taxable income on a consolidated basis with the rest of its Mexican subsidiaries for fiscal 2010. Therefore, the Company and those subsidiaries met their tax obligations individually for that year (Note 17a).

Notwithstanding the foregoing, due to business reasons, on December 21, 2010, the Company again was approved by the tax authorities to determine its consolidated taxable income only with the subsidiary companies that meet the characteristics of controlled companies, as set forth by the currently enacted Income Tax Law. That authorization will go into effect for the fiscal year extending from January 1 to December 31, 2011.

vii) Due to the amendments to the Income Tax Law in Mexico effective January 1, 2010, the CINIF issued Mexican IFRS 18, “Recognition of the effects of the tax reform of 2010 on taxes on earnings” (IFRS-18) to be applied immediately, which sets forth the accounting treatment of the income tax liability derived from the changes to the tax consolidation regime. Therefore, the Company determined income tax payable at December 31, 2009 as if the tax consolidation provisions had not existed since fiscal 1999 henceforth. In accordance with IFRS-18: (i) the liability for income tax derived from the tax reform on intercompany dividends should be recognized with a charge to retained earnings, without preparing the restatement of prior year financial statements; and (ii) the liability related to the tax losses of subsidiaries, as well as losses on the sale of shares, used in tax consolidation should not be offset by the income tax asset associated with the same items. Pursuant to the foregoing, at December 31, 2009, the Company recognized a liability for income tax in the amount of Ps. 133,619 with a charge to retained earnings.

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q) Comprehensive gain or loss on financing (RIF - Spanish acronym)

RIF represents the expense or income derived from financing activities during the period. RIF consists of interest, the exchange rate fluctuation effect, changes in fair value of financial instruments and derivatives and, through December 31, 2007 or when the inflationary economic environment is applied, the gain or loss on monetary position. The RIF effect is recorded in income, except if the RIF attributable to “qualified assets” is capitalized in accordance with Mexican FRS D-6, “Capitalization of the comprehensive gain or loss on financing”. The amount of the qualified asset should not exceed the amount of the expected economic benefit.

Foreign currency denominated transactions are recorded at the current exchange rate at the date on which they are entered into or paid. Foreign currency denominated monetary items are translated to Mexican pesos by using the exchange rate published by the Banco de Mexico at the date of the balance sheet. Resulting exchange fluctuations are included in income, except as discussed in the paragraph above. In addition, foreign exchange fluctuations that arise from the foreign currency debt related to the acquisition of foreign entities and those identified with foreign currency denominated related party balances that are of a long-term investment nature are included along with the applicable monetary position in the “Accumulated translation effect”.

r) Comprehensive income

Comprehensive income consists of the net income for the period, plus/(less) other results for the same period reflected in the stockholders’ equity pursuant to specific accounting provisions. Accordingly, stockholders’ equity discloses the components of comprehensive income, which does not include capital contributions or reductions.

s) Earnings per share

Earnings per share are determined based on the weighted average common shares outstanding during the years and earnings for common shareholders, in conformity with Mexican Bulletin B-14, “Earnings per share” (Bulletin B-14). The Group has not carried out any transactions that may cause it to issue any potential shares with a dilutive effect on earnings per share. Dilutive earnings per share are not determined if the continued operations result is a loss, in accordance with Bulletin 14.

t) Revenue recognition

Revenues are recognized at the fair value of the consideration received or receivable, reduced from returns, rebates and discounts granted to customers in the period in which risks and benefits are transferred to customers, which generally coincides with: (i) persuasive evidence that an arrangement exists, (ii) delivery has occurred to the satisfaction of customer’s orders, (iii) the seller’s price to the customer is fixed or determinable, (iv) the collection is reasonably assured and (v) there is no condition or uncertainty that might imply their reversal and, therefore, the customer assumes the risk of loss. Due to the nature of its operations, the Group assumes total risk of ownership of the products purchased from third parties, and it does not act as an agent or commission agent.

u) Concentration of risk

The Group sells its products to a large number of customers in the countries in which it operates. Accordingly, no individual customer accounted for a significant amount of sales or receivables in fiscal 2009 and 2010. Furthermore, there are no significant concentrations related to suppliers to the Group that provide it with inventories in those years.

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4. Receivables:	2009	2010
Trade receivables	Ps. 5,814,642	Ps. 7,830,897
Allowance for doubtful accounts	(586,322 )	(892,594 )
	Ps. 5,228,320	Ps. 6,938,303

5. Other accounts receivable:	2009	2010
Other receivables	Ps. 326,231	Ps. 509,866
Casa Internacional del Te, S.A. de C.V.	59,577	72,638
Related parties	41,306	48,949
Value added tax recoverable	84,202	158,520
Income tax recoverable	275,536	218,686
Other taxes recoverable	108,697	426,133
	Ps. 895,549	Ps. 1,434,792

6. Inventories:	2009	2010
Pharmaceutical products	Ps. 4,182,456	Ps. 7,908,953
Beauty care products	657,104	608,551
Books and magazines	243,323	227,646
Electric appliances	4,035	4,034
Groceries	25,464	25,661
Other	21,363	24,873
	5,133,745	8,799,718
Estimate for reserve of inventory	(48,103 )	(67,199 )
	5,085,642	8,732,519
Merchandise-in-transit	55,500	124,760
	Ps. 5,141,142	Ps. 8,857,279

Merchandise-in-transit represents pharmaceutical products for which title and risk of loss has been transferred to the Group.

7. Other current assets:	2009	2010
Prepaid expenses	Ps. 45,971	Ps. 91,011
Derivative financial instruments		4,388
Assets available-for-sale		29,341
Other assets		65,778
	Ps. 45,971	Ps. 190,518

Assets available-for-sale apply to plots of land that have been included in a sales program for 2011.

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## 8. Derivative financial instruments:

## Cash flows hedges (Dollar/Peso Forwards)

The Company agreed upon these transactions in different months of the year to look for a future US dollar purchase price on different dates, and to be able to meet its US dollar- denominated commitments. Forwards have a different agreed upon price on each date of maturity. The assumed risk is depreciation of the US dollar in connection with the Mexican peso below the agreed upon prices, given the Company's long profile in US dollars. At December 31, 2010, the characteristics and fair value of derivative financial instruments were as follows:

Contract	Contract value	2010 Due date	Buy/sell position	Asset/(liability)		Effect on income (loss)	
				Name	Amount	Realized	Unrealized
Forward	114,816	2011	Buy	Current assets	1,176Ps.	(1,065)Ps.	597
Forward	318,567	2011	Sell	Current assets	3,212	3,006	
Forward	395,204	2011	Buy	Current liabilities	(12,709)	(2,092)	(6,414)
Swap	897,954	2015	Buy	Long-term assets	30,876		
Swap	894,254	2015	Sell	Long-term other liabilities	(225)	(21,474)	(32,116)

The current liability and the long-term asset in the amount of Ps.12,709 and Ps.30,876 are included in the consolidated balance sheet in the line items "Other payables and accrued liabilities" and "Other assets, net", respectively.

The Company manages the credit risk of its derivative financial instruments which are traded on recognized markets and with high creditworthy and reputable counterparties. The Company recognizes a hedge provision that applies to the difference between the "spot price" value and the fair value of the cash flow hedging instruments, which are determined as highly effective hedges, in accordance with Mexican FRS. At December 31, 2010, the amount of the hedge provision was immaterial.

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## 9. Property and equipment:

	2009	2010
Buildings	Ps. 1,001,244	Ps. 1,247,239
Machinery and equipment	204,659	126,507
Transportation equipment	266,519	223,843
Office equipment	232,404	981,088
Computer equipment	443,867	672,369
Leasehold improvements	76,669	1,233,384
	2,225,362	4,484,430
Less - accumulated depreciation and amortization	(1,182,727)	(1,227,355)
	1,042,635	3,257,075
Land	357,553	465,928
Construction in progress		3,886
	Ps. 1,400,188	Ps. 3,726,889

As a the result of the acquisition of FASA, the property and equipment fair value acquired at the acquisition date amounted to Ps.2,374,094 (Note 23d).

The average annual depreciation and amortization rates for 2009 and 2010 were as follows:

	Mexico (2009 & 2010)	Chile (2010)
	%	%
Buildings and construction	2.1	5
Machinery and equipment	6.1	
Transportation equipment	10.2	20
Office equipment	6.5	10
Computer equipment	11.2	25
Leasehold improvements	5	6.7
Selling equipment	25	25

At December 31, 2009 and 2010, the depreciation and amortization annual expense amounted to Ps. 65,787 and Ps. 416,738, respectively.

At December 31, 2010, the Company maintains eight financial lease agreements, of which six are for commercial locales, two for computer equipment and one for photography laboratories, as follows:

	Amount
Land	Ps.45,310
Buildings	14,309
Machinery and equipment	88
Computer equipment	10,767
	Ps.70,474

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## 10. Goodwill, intangible assets and deferred charges:

	2009	2010
Goodwill:		
Drogueros	Ps. 128,370	Ps. 128,370
Farmacias ABC	32,551	32,551
Citem	56,456	56,456
CS Brasil	1,383,913	1,393,454
FASA (new business acquisition)		2,590,378
	1,601,290	4,201,209
Accumulated impairment loss	(210,000 )	(210,000 )
	Ps. 1,391,290	Ps. 3,991,209
Intangible assets with indefinite useful life:		
Commercial trademarks (*)	Ps.	Ps. 3,971,000
Intangible assets with definite useful life:		
Patents and other rights	Ps.	Ps. 171,518
Development costs		17,531
Software	177,957	178,235
Licenses	112,621	289,274
Other intangible assets		68,428
	290,578	724,986
Less - accumulated amortization	(216,966 )	(390,828 )
	Ps. 73,612	Ps. 334,158
Deferred charges:		
Organizing and installation expenses	Ps. 238,038	Ps. 270,686
Less - accumulated amortization	(116,427 )	(130,540 )
	121,611	140,146
Deferred income tax	99,961	76,508
	221,572	216,654
	Ps. 1,686,474	Ps. 8,513,021

(\*) The Company recognized various commercial trademarks previously acquired independently by FASA as identifiable intangible assets. As a result of the acquisition of FASA, those trademarks were recorded at fair value at the acquisition date in the amount of Ps. 3,971,000 (Note 1d).

At December 31, 2010, the trademarks are summarized as shown below:

	Amount
Farmacias	
Ahumada	Ps. 1,809,000
Farmacias	
Benavides	1,917,000
Farmacias	
Peruanas	245,000

Ps.3,971,000

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The movements of the period of the intangible assets with indefinite useful life were as follows:

	2009		2010	
	Goodwill	Intangible assets with indefinite useful life	Goodwill	Intangible assets with indefinite useful life
Amount at beginning of period	Ps. 1,305,227	Ps.	Ps. 1,391,290	Ps.
Increase for business acquisition			2,590,378	3,971,000
Impairment loss	(210,000 )			
Translation effect	296,063		9,541	
Amount at end of period	Ps. 1,391,290	Ps.	Ps. 3,991,209	Ps. 3,971,000

As discussed in Note 31), the Group carried out the goodwill impairment test during the last quarter of fiscal 2009. As a result, an impairment loss was recognized in income in the line item “other (income) expenses, net”, since the net carrying value of the cash generating unit in Brazil (subsidiary Drogarias) exceeded its “value in use” in the amount of Ps.210,000. This impairment loss concurred with the generalized crisis in the economic environment that had a negative impact on the pharmaceutical industry in Brazil for that year. Based on goodwill impairment test carried out during the last quarter of fiscal 2010, the Group determined that impairment losses were not incurred regarding the net carrying value of goodwill, as well as other intangible assets with an indefinite useful life in its cash generating units.

#### 11. Related party balances and transactions:

At December 31, 2009 and 2010, the related party balances and transactions were as follows:

Accounts receivable	2009	2010
Aerextra, S.A. de C.V.	Ps. 4,489	Ps.
Xtra Inmuebles, S.A. de C.V.	30	
Tenedora Farmaceutica de Mexico, S.A. de C.V.	9,590	9,590
Tenedora de Farmacias Morelianas, S.A. de C.V.	18,597	20,582
Grupo Xtra, S.A. de C.V.	8,600	11,588
Sports Clinic, S.A. de C.V.		6,679
Comercializadora Lundedeq, S.A. de C.V.		120
Farmaprice, S.A. de C.V.		134
Administradora Inmas, S.A. de C.V.		256
	Ps. 41,306	Ps. 48,949
Account payable		
Administradora Inmas, S.A. de C.V.	Ps. 430	Ps.



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During 2009 and 2010, the related party transactions were as follows:

	Services received	
	2009	2010
Aeroxtra, S.A. de C.V.	Ps. 17,686	Ps. 18,028
Xtra Inmuebles, S.A. de C.V.	4,285	5,245
Administradora Inmas, S.A. de C.V.	1,194	355
Total	Ps. 23,165	Ps. 23,628

At December 31, 2009 and 2010, the total benefits granted to key management personnel or significant directors are summarized as shown below:

	2009	2010
Mexico	Ps. 41,091	Ps. 44,953
Chile	68,610	96,870
	Ps. 109,701	Ps. 141,823

The Group considers that the related parties referred to above are not “Special Purpose Entities”, in accordance with Mexican FRS B-8, “Consolidated or combined financial statements” and, therefore, at December 31, 2009 and 2010, the Group has not consolidated the assets, liabilities and operating income of those entities.

## 12. Short- and long-term debt:

	Short-term	Long-term
HSBC Mexico, S.A. Institucion de Banca Multiple Funds allocated toward the purchase of shares issued and outstanding representative of the capital stock of FASA (Note 1d).	Ps. 5,773,857	Ps.
Banco Mercantil del Norte, S.A. Funds allocated toward working capital and to liquidate other bank liabilities incurred from other banking institutions. These other bank liabilities had an original maturity of May 2015. The prepayment of this debt did not cause any penalties to be incurred by the Group.	1,950,000	

The loan facilities noted above are evidenced by a credit agreement dated August 30, 2010, for a six-month term, and it may be extended to twelve months. The principal is due in a payment at the due date. Interest is payable monthly at the Equilibrium Interbank Interest Rate (EIIR) market variable in effect at date of payment. At December 31, 2010, the EIIR was 4.87%. Those credits are secured as follows: (i) a pledge agreement on inventories, accounts receivable, and shares of capital stock of FASA; (ii) a trust agreement in guarantee on the shares of capital stock of various subsidiaries of Grupo Casa Saba, S.A.B. de C. V.; and (iii) a pledge agreement without transfer of ownership of inventories and accounts receivable of Grupo Casa Saba, S.A.B. de C.V. and some of its operating subsidiaries.

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Short-term    Long-term

The loan facilities noted above are evidenced by a credit agreement dated August 30, 2010, for a six-month term, and it may be extended to twelve months. The principal is due in a payment at the due date. Interest is payable monthly at the Equilibrium Interbank Interest Rate (EIIR) market variable in effect at date of payment. At December 31, 2010, the EIIR was 4.87%. Those credits are secured as follows: (i) a pledge agreement on inventories, accounts receivable and shares of capital stock of FASA; (ii) a trust agreement in guarantee on the shares of capital stock of various subsidiaries of Grupo Casa Saba, S.A.B. de C. V.; and (iii) a pledge agreement without transfer of ownership of inventories and accounts receivable of Grupo Casa Saba, S.A.B. de C.V. and some of its operating subsidiaries.

The credit agreement sets forth affirmative and negative covenants, as of the drawdown and during the effectiveness of the credit facility, which mainly require the Group to, among other things: i) use the funds for the purpose for which they were granted; ii) meet the obligations contained in the guarantee documents; iii) not encumber assets except those set forth in the agreement; iv) not merge with third parties; v) not dispose of assets except those set forth in the agreement; and vi) not make dividend payments nor carry out capital decreases. At December 31, 2010, those conditions are met by the Group.

Banco Nacional de Mexico, S.A.	Ps.    150,000
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Unsecured credit agreement allocated toward working capital effective up to January 2011. The credit bears interest at a 8.97% rate and is secured by the Company's guarantee by endorsement. Subsequent to the balance sheet date, this balance was paid in full and the facility was closed.

**Other financing**

Agreement titled "Productive chains for the development of suppliers by electronic means" (the "Agreement") with Nacional Financiera, S.N.C., Institucion de Banca de Desarrollo dated October 9, 2009, whereby the Company can access factoring and electronic discounting of notes. Pursuant to the foregoing, the Company entered into various agreements with financial institutions indicated below, in order for those institutions to be able to acquire credit rights at a discount owned by certain suppliers with a charge to the Group.

Ixe Banco, S.A. Institucion de Banca Multiple Ixe Grupo Financiero Contract entered into in November 2010. The transactions that can be carried out under this agreement amount to a maximum of Ps.250,000.	247,780
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Financiera Bajio, S.A. de C.V. Sociedad Financiera de Objeto Multiple Contract entered into in October 2010. The transactions that can be carried out under this agreement amount to a maximum of Ps.300,000.	299,810
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	Short-term	Long-term												
BBVA Bancomer, S.A. Institucion de Banca Multiple Contract entered into in June 2010. The transactions that can be carried out under this agreement amount to a maximum of Ps.300,000.	Ps. 299,007													
Banco Ve por Mas, S.A. Institucion de Banca Multiple Contract entered into in February 2010. The transactions that can be carried under this agreement amount to a maximum of Ps.100,000.	92,113													
Foreign subsidiaries: Bank loans obtained by FASA for working capital. Debt bears interest at variable market rates.	278,857	Ps. 230,344												
FASA has debts in marketable bonds as follows:	116,258	2,059,002												
<table border="0"> <thead> <tr> <th style="text-align: left;">Share series</th> <th style="text-align: left;">Amount in Development Units</th> <th style="text-align: left;">Due date</th> <th style="text-align: left;">Guarantee</th> </tr> </thead> <tbody> <tr> <td>E</td> <td>1,800,000</td> <td>15/05/2016</td> <td>No</td> </tr> <tr> <td>F</td> <td>2,200,000</td> <td>15/05/2029</td> <td>No</td> </tr> </tbody> </table>	Share series	Amount in Development Units	Due date	Guarantee	E	1,800,000	15/05/2016	No	F	2,200,000	15/05/2029	No		
Share series	Amount in Development Units	Due date	Guarantee											
E	1,800,000	15/05/2016	No											
F	2,200,000	15/05/2029	No											
Total	Ps. 9,207,682	Ps. 2,289,346												

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FASA's bank loans at December 31, 2010 are summarized as shown below:

## Short-term debt

Company	Country	Bank	Type	Currency	Rate	Amount
F a r m a c i a s Ahumada	Chile	Banco de Chile	Bank loans	Chilean pesos	4.44%	Ps. 106,581
F a r m a c i a s Ahumada	Chile	Banco de Chile	Bank loans	\$ USD	1.00%	7,066
F a r m a c i a s Ahumada	Chile	Banco del Estado	Bank loans	Chilean pesos	5.90%	66,238
F a r m a c i a s Ahumada	Chile	Banco del Estado	Bank loans	Chilean pesos	5.90%	21,175
F a r m a c i a s Ahumada	Chile	Banco del Estado	Bank loans	Chilean pesos	5.14%	17,977
F a r m a c i a s Ahumada	Chile	Banco del Estado	Bank loans	Chilean pesos	7.17%	11,942
F a r m a c i a s Ahumada	Chile	Banco Santander	Bank loans	Chilean pesos	5.76%	20,903
F a r m a c i a s Ahumada	Peru	Scotiabank	Bank loans	Peruvian Soles	5.00%	12,342
F a r m a c i a s Ahumada	Chile	Consortio Nacional de Seguros S.A.	F i n a n c i a l leasing	Chilean Development Units	8.30%	1,463
F a r m a c i a s Ahumada	Chile	Interamericana	F i n a n c i a l leasing	Chilean Development Units	8.30%	1,546
F a r m a c i a s Ahumada	Chile	BCI Leasing	F i n a n c i a l leasing	Chilean Development Units	8.30%	7,650
F a r m a c i a s Ahumada	Chile	IBM	F i n a n c i a l leasing	Chilean Development Units	3.15%	3,974
TOTAL						Ps. 278,857

## Long-term debt

Company	Country	Bank	Type	Currency	Rate	Amount
F a r m a c i a s Ahumada	Chile	Banco del Estado	Bank loans	Chilean pesos	5.14%	Ps. 70,549
F a r m a c i a s Ahumada	Chile	Banco del Estado	Bank loans	Chilean pesos	7.17%	64,024
F a r m a c i a s Ahumada	Chile	Banco Santander	Bank loans	Chilean pesos	5.76%	50,796
F a r m a c i a s Ahumada	Chile	C o n s o r c i o N a c i o n a l de Seguros S.A.	F i n a n c i a l leasing	Chilean Development Units	8.30%	16,767
F a r m a c i a s Ahumada	Chile	Interamericana	F i n a n c i a l leasing	Chilean Development Units	8.30%	25,177
	Chile	BCI Leasing			8.30%	654

Farmacias Ahumada		Financial leasing	Chilean Development Units		
Farmacias Ahumada Chile	IBM	Financial leasing	Chilean Development Units	3.15%	2,377
		TOTAL			Ps. 230,344

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Interest rates are adjusted monthly in accordance with the prevailing market rates. Consequently, at December 31, 2009 and 2010, the carrying value of the bank debt was equivalent to its fair value.

At December 31, 2009, short- and long-term credits amounted to Ps.2,382,770. Payment terms and interest rates at that date were similar to those in effect for the existing loans received at December 31, 2010, except for credits from FASA, which were acquired in October 2010.

At December 31, 2010 the Group has the following facility lines from banking institutions:

Banking Institution	Country	Total Facility Lines	Amount used at December 31, 2010	Available amount at December 31, 2010
Banco Nacional de Mexico, S.A.	Mexico	Ps. 300,000	Ps. 150,000	Ps. 150,000
Banco Santander Mexicano, S.A.	Mexico	540,000		540,000
BBVA Bancomer, S.A.	Mexico	100,000		100,000
BBVA Bancomer, S.A.	Chile	153,440	113,173	40,267
Chile	Chile	296,137	138,214	157,923
Estado	Chile	293,122	286,067	7,055
Banco Santander, S.A.	Chile	79,365		79,365
Chile	Chile	29,101		29,101
Estado	Chile	29,101		29,101
BBVA Bancomer, S.A.	Mexico	73,500		73,500
HSBC Mexico, S.A.	Mexico	200,000		200,000
Banco Nacional de Mexico, SA.		400,000		400,000
Banco Inbursa, S.A.	Mexico	100,000		100,000
BBVA Bancomer, S.A.	Peru	12,381		12,381
Scotiabank Inverlat, S.A.	Peru	30,953		30,953
Banco de crédito	Peru	43,334		43,334
<b>Total</b>		<b>Ps. 2,680,434Ps.</b>	<b>687,454Ps.</b>	<b>1,992,980</b>

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## 13. Deferred effect of taxes on earnings and employee profit sharing:

At December 31, 2009 and 2010, the deferred income tax (asset) and/or liability generated by the main temporary differences are as follows:

	2009	2010
Cumulative inventory	Ps. 346,017	Ps. 256,257
Allowance for doubtful accounts and estimate for slow-moving inventory	(173,199 )	(271,150 )
Property and equipment	148,918	24,687
Derivate financial instruments		18,819
Provisions	(10,018 )	(118,938 )
Other	88,729	185,381
	400,447	95,056
Tax loss carryforwards	(1,436 )	
Controlled subsidiaries' tax loss carryforward generated before tax consolidation	(32,164 )	
FASA's tax loss carryforward generated before the business acquisition		(86,732 )
Tax loss carryforward generated by the Group's subsidiaries		(161,592 )
	366,847	(153,268 )
Translation effect of foreign operations	75,341	76,760
Deferred income tax due to changes in tax consolidation regime	233,580	
Deferred income tax liability (asset)	Ps. 675,768	Ps. (76,508 )

i) At December 31, 2009 and 2010, Management determined that income tax will be the taxes on earnings that will normally be paid in future years by the Group's Mexican entities. Therefore, the Mexican entities recognized deferred income tax in those years (Note 3p).

The deferred income tax asset is realized when: (i) taxable income is generated and its effect offsets the reversal of deductible temporary differences, including the tax loss carryforwards effect; and (ii) there are sufficient accumulable temporary differences whose reversal occurs in the reversal period of the deductible temporary differences. The Company and its Mexican subsidiaries estimate that the deferred income tax asset will be realized considering their business plan, and no IETU will be generated in the short term. Toward that end, Management takes into account expansion plans, expiration of tax loss carryforward, projected taxable income, tax planning strategies, etc.

Deferred IETU is only recorded if, based on reasonable estimates, each Company determines that the tax on earnings due in the future will be IETU instead of income tax. The Holding Company and its Mexican subsidiaries should pay IETU individually, since that IETU Law does not contemplate a tax consolidation regime.

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(ii) The amounts for income taxes included in the income statements for the years ended December 31, 2008, 2009 and 2010 are summarized as follows:

	2008	2009	2010
<b>Current income taxes</b>			
Mexican operations:			
Income tax	Ps. 321,559	Ps. 323,911	Ps. 287,506
IETU	76,052	19,826	13,517
Foreign operations			91,202
	397,611	343,737	392,225
<b>Deferred income taxes</b>			
Mexican operations	Ps. (95,162 )	Ps. (131,840 )	Ps. (202,755 )
Foreign operations			(135,342 )
	(95,162 )	(131,840 )	(338,097 )
<b>Income tax expense, net</b>	<b>Ps. 302,449</b>	<b>Ps. 211,897</b>	<b>Ps. 54,128</b>

At December 31, 2008, 2009 and 2010, IETU due in the amount of Ps. 76,052 and Ps. 19,826, and PS. 13,517, respectively, applies to tax on earnings paid individually by every company, as well as by the Company. Moreover, in those years, the amount of deferred employee profit sharing applied to income amounted to Ps. (197), Ps. 254 and Ps. 1,317, respectively.

The change in consolidated deferred income taxes during 2009, 2008 and 2007 were as follows:

	2008	2009	2010
Deferred income tax charged to the income statement	Ps. (95,162)Ps.	(131,840)Ps.	(338,097)
Deferred income tax charged to the stockholders' equity		208,960	76,760
<b>Total</b>	<b>Ps. (95,162)Ps.</b>	<b>77,120Ps..</b>	<b>(261,337)</b>

(iii) Effective tax rate

Differences between the accounting and the tax basis of assets and liabilities and the different income tax rates and laws applicable to the Mexican subsidiaries and foreign subsidiaries, give rise to differences between the statutory tax rate applicable in Mexico, and the effective tax rate presented in the consolidated income statements, which in 2008, 2009 and 2010 were as follows:

	2008	2009	2010
	%	%	%
Consolidated statutory tax rate	(28.0)	(28.0)	(30.0)
Other non-taxable income (i)	0.2	5.1	0.4
Expenses and other non-deductible items	(0.6)	(12.3)	(2.6)
Difference between book and tax inflation	2.6	(9.5)	1.4
Other tax non-accounting benefits	0.6	5.7	18.2
<b>Effective consolidated tax rate</b>	<b>(25.2)</b>	<b>(39.0)</b>	<b>(12.6)</b>

(iv) This line item includes the effect of the different income tax rates in the countries where the Group operates.

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## 14. Foreign currency position:

At December 31, 2009 and 2010, assets and liabilities denominated in foreign currencies, translated into reporting currency, were as follows:

	2009	2010
<b>Assets:</b>		
Current assets	Ps. 516,230	Ps. 2,170,446
Long-term assets	1,178,317	1,776,258
	1,694,547	3,946,704
<b>Liabilities:</b>		
Current liabilities	466,850	6,239,096
Long-term liabilities	476,182	3,177,522
	943,032	9,416,618
Lending (borrowing) position	Ps. 751,515	Ps. (5,469,914)

At December 31, 2009 and 2010, the exchange rates used in the process of translation to the reporting currency, published by the Banco de Mexico, are as follows:

Currency	2009		2010	
	Balance sheet date	Report issuance date	Balance sheet date	Report issuance date
U.S. dollar	Ps. 13.04	Ps. 12.25	Ps. 12.38	Ps. 11.53
Brazilian real	Ps. 7.48	Ps. 7.08	Ps. 7.45	Ps. 7.32
Chilean peso			Ps. 0.03	Ps. 0.02

## 15. Other payables and accrued liabilities:

At December 31, 2009 and 2010, the other payables and accrued liabilities balance were as shown below:

	2009	2010
Other payables	Ps. 86,271	Ps. 1,653,448
Provisions		544,689
Tax payables	45,849	341,633
Documents for paying		131,853
Retentions of taxes		120,024
Employee profit sharing	4,000	5,356
	Ps. 136,120	Ps. 2,797,003

Current provisions and other payables referred to above primarily consist of the best estimate on bonuses and incentive plans for employee benefits, retaining officer, severance benefits which arise from restructuring causes, administrative expenses, fees, marketing insurance and surety bonds, rents of locations and certain contingencies from legal procedures. These amounts are revolving in nature and are expected to be settled and replaced by similar amounts within the next 12 months. The main increase amount is derived from subsidiary FASA as discussed in Note 1d).

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## 16. Stockholders' equity:

## a) Capital structure

At December 31, 2009 and 2010, paid-in capital stock was as follows:

	Number of Shares	Par value	
		2009	2010
Fixed capital shares without retirement rights	265,149,080	Ps. 167,730	Ps. 167,730
Variable capital shares	270,280	173	173
Historical capital stock	265,419,360	Ps. 167,903	Ps. 167,903
Restated capital stock		Ps. 1,123,764	Ps. 1,123,764

At December 31, 2009 and 2010, capital stock comprised of Series Sole common shares, fully subscribed for and paid, with no par value shown. Variable capital stock has no limits.

Effective January 1, 2008, stockholders' equity is restated during the high inflationary periods, as explained in Note 3 d) above. Through December 31, 2007, the last date on which the Group operated in an inflationary economic environment, stockholders' equity was restated as discussed in that Note.

## Repurchase and resale of own shares (restricted earnings)

The Company may acquire the shares representative of its capital stock with a charge to stockholders' equity, without reducing capital stock, or with a charge to capital stock. In this last event, they become treasury shares, without requiring a resolution adopted by the stockholders' meeting. The General Ordinary Stockholders' Meeting determines the amount that should be allocated toward share repurchases for each year. Those funds may not exceed the balance of the Company's net earnings, including retained earnings. The amount of the reserve for own share repurchases is appropriated from retained earnings.

At the General Ordinary Stockholders' Meeting held on April 22, 2003, the stockholders resolved that the maximum amount geared toward the Company's own share repurchases should be equivalent to 15% of the Company's stockholders' equity at December 31, 2002, without exceeding retained earnings at that date. During 2009 and 2010, the Stockholders' Meetings resolved to maintain the same level of reserve approved on April 22, 2003. During 2009 and 2010, the stockholders resolved not to agree a specific number of shares and Mexican peso amounts for repurchase of its own shares.

## b) Legal reserve

Net income generated by the Company is subject to the legal provision that requires appropriating 5% of the Company's income to a legal reserve until that reserve equals 20% of the Company's capital stock. Equity in earnings of subsidiaries and associates is not considered for this purpose. Amounts from this reserve may not be distributed to the Company's stockholders, except as stock dividends. At December 31, 2009 and 2010, the Company's legal reserve amounted to Ps. 224,477 and Ps. 238,491, respectively, which is included in "retained earnings".



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c) Distribution of earnings and capital reductions

Any dividends distributed to stockholders must be paid out of the “Net taxable income account” (CUFIN-Spanish acronym). Any dividends paid out in excess of CUFIN are subject to a 42.9% tax rate payable by the Company and its subsidiaries for 2010 (38.9% for 2009). The resulting income tax may be offset against income tax due in the same year and the subsequent two years and/or IETU of the same period. The balance of CUFIN is determined as provided for in currently enacted tax legislation. At December 31, 2010, the balance of CUFIN amounted to Ps. 3,990,781. Through December 31, 2009, CUFIN balance was determined in a consolidated manner. As a result of the tax deconsolidation referred in Note 3 p), effective 2010, the Company no longer determines the consolidated balance CUFIN in accordance with the Mexican tax provisions.

In April 2008 and 2009, dividends were declared at the Company’s Stockholders’ Meeting in the amount of Ps. 170,000 each year to be paid out of retained earnings. Dividends paid did not exceed the consolidated CUFIN balance at those dates. Therefore, no income tax was due.

The excess of capital reimbursement per share paid to stockholders over the balance of the “Restated contributed capital per share account” should be treated as a distributed dividend. The excess will be assessable as provided for in the Income Tax Law. The resulting income tax may be offset as referred to above. Restated contributed capital per share account is determined in accordance with currently enacted tax legislation. As a result of the tax deconsolidation referred in Note 3 p), effective 2010, the Company no longer determines the consolidated balance of the restated contributed capital per share account in accordance with the Mexican tax provisions.

d) Dividends among companies of the Group

Dividends paid out of the CUFIN among companies of the Group are subject to the provisions discussed in subparagraph c) above due to the tax deconsolidation for 2010 mentioned. Through December 31, 2009, dividends paid of CUFIN among companies of the Group were subject to the provisions set forth by the 2010 tax reform (Note 17 d).

Through December 31, 2008, the tax consolidated regime set forth that dividends distributed among the Group’s companies that were not paid out of the CUFIN were subject to income tax at the time when the shares of the controlled subsidiary that distributed them were sold, either in whole or in part, when the equity stake was reduced in the held company or when the Group was dissolved or no longer consolidated.

On November 5, 2008 and December 18, 2009, the Casa Saba’s General Ordinary Stockholders’ Meeting, declared the payment of dividends in the amount of Ps. 1,119,732 and Ps. 1,140,000, respectively, in favor of the Company, as well as Ps. 1 (peso) in favor of Inmuebles Visosil, S. A. de C. V.

In December 2009, the General Ordinary Stockholders’ Meeting of Drogueros, Estrella del Este, Secosa and Secodro declared the payment of dividends in the amount of Ps. 320,000, Ps. 1,200, Ps. 24,500 and Ps. 1,700, respectively, in favor of Inmuebles Visosil, S.A. de C.V. Moreover, in December 2009, the General Ordinary Stockholders’ Meeting of Inmuebles Visosil, S.A. de C.V. declared the payment of dividends in the amount of Ps. 367,000 in favor of Casa Saba.

e) Noncontrolling equity

Noncontrolling interest reflects the equity of third-party shareholders in capital and earnings (losses) of consolidated subsidiaries.

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## 17. Tax system:

Effective January 1, 2008, the Mexican tax authorities enacted the IETU Law which co-exists with the Income Tax Law. Effective that date, the Company and its Mexican subsidiaries pay Income Tax or IETU, whichever is higher.

## a) Consolidated income tax due

## i) The annual income tax rate is as shown below:

Country	2009	2010
Mexico	28%	30%
Brazil	34	34
Chile	17	17
Peru	30	30

ii) As discussed below, through December 31, 2009, the Company and some of its Mexican subsidiaries determined the income tax amount on a consolidated basis. For this purpose, the Holding Company included the amount of “consolidating tax equity” in tax consolidation, that is, the amount of taxable income/tax loss generated in the year by its controlled companies was included in tax consolidation at 100% of the equity stake that the Holding Company held in the capital stock of its controlled companies. In addition, the Holding Company also included at 100% its individual taxable income/tax loss generated in the same year in tax consolidation.

iii) Effective December 18, 2009, Management decided that some significant Mexican subsidiaries were no longer considered controlled for tax consolidation purposes. As of that date, those controlled Mexican companies individually meet the obligations set forth in the Income Tax Law. As a result of deconsolidation, the Holding Company paid income tax in the amount of Ps.188,768 which was subsequently credited in accordance with the provisions of the Income Tax Law. In addition, on June 25, 2010, Management filed a notice with the Mexican tax authorities that the Company was no longer going determine its consolidated taxable income with the rest of its controlled subsidiaries for 2010. This way, those subsidiaries and the Holding Company meet their tax obligations individually for that year. As a result of this new tax deconsolidation, the Company paid income tax in the amount of Ps. 132,629.

Notwithstanding the foregoing, for business reasons, the Company again was approved by the tax authorities on December 21, 2010, in order for it to determine its consolidated income tax as a controlling company along with its subsidiaries that meet the characteristics of controlled companies for tax purposes. The approval will go into effect as of the fiscal year extending from January 1 to December 31, 2011. The rest of the subsidiaries that do not conform to the characteristics of controlled companies will meet their tax obligations individually, in accordance with the Income Tax Law.

The subsidiary Marproa is authorized to pay the higher of income tax or IETU separately from the Group under a tax regime known as the “administrative facilities”. This regime grants benefits regarding ascertainment of disbursements made by Marproa, as well as other relative to credit “consumption taxes”.

In conformity with the Mexican Income Tax Law, subsidiaries residing abroad do not consolidate for tax purposes. In addition, Mexican companies that are incorporated into tax consolidation subsequent to the date on which the approval goes into effect are incorporated as of the fiscal year subsequent to that in which ownership of more than 50% of the shares is acquired.

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iv) In 2005, the Company and its Mexican subsidiaries chose to deduct the cost of sales of the “base inventory” determined at December 31, 2004 for tax purposes. Therefore, those entities determined the “cumulative inventory” value which is treated as taxable income. At December 31, 2004, cumulative inventory amounted to Ps. 3,184,264. Its accumulation is annual, effective 2005 through fiscal year 2012. At December 31, 2009 and 2010, the cumulative inventory amount added to the taxable income amounted to Ps. 428,805 and Ps.285,274, respectively.

v) Income tax due is determined by taking into account the depreciation on the restated fixed assets value, annual inflationary adjustment on monetary items, benefit of tax loss carryforward and the cumulative inventory effect of the year.

vi) Brazil enacted a new Law in 2009 that grants tax amnesty that: (i) allows for paying debts on taxes on earnings and excise taxes in less strict conditions than those that normally apply; and (ii) include the option for offsetting tax loss carryforwards against unpaid taxes on earnings and unpaid excise taxes.

b) Corporate Flat Tax Law (IETU-Spanish acronym)

The annual IETU tax rate is 16.5%, 17%, and 17.5% for fiscal years ending 2008, 2009 and 2010, respectively. IETU is a direct tax with a flat rate that taxes the remaining net cash flow of the entities. IETU of the period is obtained by applying the annual tax rate to taxable income determined on a cash flow basis.

The IETU Law does not contain a regime for tax consolidation purposes. Accordingly, the Company and its Mexican subsidiaries should pay IETU individually. In terms of the Income Tax Law, each company may consider the amount of income tax that has been delivered to the Holding Company as its own income tax, which may be credited against IETU. At December 31, 2008, 2009 and 2010, some controlled companies generated IETU greater than income tax, therefore IETU was the annual tax due individually. In those years, annual IETU paid by the companies amounted to Ps. 76,052, Ps. 19,826 and Ps. 13,517, which is included in income in the line item “Provisions for income tax”. Payment of that tax is considered final.

While IETU co-exists with income tax, IETU is paid if it is greater than income tax of the same period. IETU of the period is reduced by the amount of income tax paid on taxable income, as well as by the income tax paid on dividends distributed during the same period. If IETU is less than income tax, the Company is not subject to IETU. Moreover, if the authorized deductions for IETU purposes exceeds its taxable income (negative base), the Company is not subject to IETU.

At December 31, 2008, 2009 and 2010, the Company and its subsidiaries determined the IETU’s tax credits permitted for the IETU Law. The amount of those tax credits does not exceed certain percentages, and their offset cannot exceed ten years, which become effective in fiscal year 2008. The significant tax credits refer to the amount of authorized deductions that exceed taxable income in the year, salaries and contributions of social security, investments in fixed assets and deferred charges made between January 1, 1998 and August 31, 2007 and existing inventories at December 31, 2007.

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## c) Tax loss carryforwards for income tax and negative base for IETU

i) In accordance with Mexican Income Tax Law, loss carryforwards can be offset against taxable income that may be generated in the future over a ten-year term by Mexican entities. Tax loss carryforwards can be restated based on the INPC factor from the date incurred through the sixth month of the year in which they can be offset against taxable income. At December 31, 2010, the Group had incurred in tax loss carryforwards as follows

Year incurred	Group (Except FASA and subsidiaries)	Farmacias Ahumada and subsidiaries	Expiration date
2001	Ps. 1,133	Ps. 71,706	2011
2002	4,564	86,462	2012
2003	6,044	74,066	2013
2004	5,316	81,376	2014
2005	94,128	94,521	2015
2006	117,637	2,644	2016
2007	16,337	809	2017
2008	123,101		2018
2009	81,994	438	2019
2010	90,411		2020
	Ps. 540,665	Ps. 412,022	

ii) The negative IETU base generates a tax credit that results from applying the currently enacted IETU rate to that negative base. The resulting amount may be credited against IETU in the following ten fiscal years until it is exhausted. The negative base can be restated as explained in paragraph i) hereinabove. At December 31, 2010, the IETU negative base generated by some Mexican subsidiaries was shown as follows:

Year incurred	Negative base
2008	Ps. 9,732
2010	132,747
	Ps. 142,479

## d) 2010 Mexican Tax Reform

Effective January 1, 2010, the Mexican tax authorities approved the amendments to the Income Tax Law. The significant changes were as follows:

i) The annual income tax rate is 30% from 2010 to 2012. That tax rate decreases to 29% for 2013, and 28% from 2014 and henceforth.

ii) Change in the tax consolidation regime which required for determining at December 31, 2009 annual income tax as if tax consolidation rules had not existed since 1999 and henceforth. Therefore, companies should pay restated income tax that is related to the benefits of tax consolidation obtained as of that year, in connection with: (a) tax losses used in tax consolidation that would have not been carried forward individually by the entity that incurred them; (b) losses on sales of stock to be carried forward individually by the entity that incurred them; (c) special consolidation items for transactions among entities of the Group; and (d) dividends paid among entities of the Group that are paid out of earnings not taxed for income tax purposes in the past. In addition, companies should determine income tax on

the difference between consolidated CUFIN balances and CUFIN balances of controlled entities.

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As explained in paragraph a) of this same Note, on June 25, 2010, the Company no longer determines its consolidated taxable income with the rest of its controlled subsidiaries for fiscal 2010. Therefore, those subsidiaries meet their tax obligations individually for that year. As a result of this new tax deconsolidation, the Company paid Income Tax in the amount of Ps. 132,629.

In accordance with that tax reform, effective 2010, the Company would start to reverse the benefits of consolidation obtained in the 1999-2004 period, while the benefits obtained as of fiscal 2005 would be reversed as of 2011. The tax reform sets forth the payment of taxes resulting for the reversal in accordance with certain percentages and terms. As a result of tax deconsolidation and payment of resulting taxes discussed in the above paragraph, the reversal process of tax benefits no longer applies to the Group.

## 18. Operating segments:

Operating segments are defined as the components of an entity oriented to the production and sale of goods and services, which are subject to risks and benefits different from those associated with other business segments. The Group operates on a regional basis by considering the distribution business segment and the retail pharmacy segment. Each regional director supervises and is responsible for all the business activities in each unit. These activities refer to the distribution of pharmaceutical products, as well as health and beauty aids/other products, entertainment products and food/non-perishable products through its operating subsidiaries. The Group distributes these product lines through its distribution network, as well as retail pharmacies throughout Mexico, as well as Rio de Janeiro, Brasil and, effective 2010, Chile and Peru.

The regional director, who is one level below the chief financial officer and chief executive officer in the organizational structure, reports to such officers the operating results of the business unit. The Group's management internally evaluates the results and performance of each business unit for decision-making purposes.

The main indicator used by Group's management to evaluate the performance of each entity is operating EBITDA, which Group defines as operating income plus depreciation and amortization. This indicator, which is presented in the selected financial information, is consistent with the information used by Group's management for decision-making purposes. The accounting policies applied to determine the financial information by operating segment are consistent with those described in Note 3).

Selected income statement information by operating segment for the years ended December 31, 2008, 2009 and 2010 was as follows:

Concept		Retail pharmacy	2008 Distribution business	Total
Net sales	Ps.	2,553,348Ps.	25,846,711Ps.	28,400,059
Operating income		71,804	888,901	960,705
Depreciation and amortization		19,475	70,529	90,004
Ebitda		91,279	959,430	1,050,709



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Concept		Retail pharmacy	2009 Distribution business	Total
Net sales	Ps.	3,224,313Ps.	26,567,344Ps.	29,791,657
Operating income		360,747	529,978	890,725
Depreciation and amortization		34,675	73,984	108,659
Ebitda		395,422	603,962	999,384

Concept		Retail pharmacy	2010 Distribution business	Total
Net sales	Ps.	8,586,462Ps.	25,657,720Ps.	34,244,182
Operating income		126,147	558,451	684,598
Depreciation and amortization		114,639	76,366	191,005
Ebitda		240,786	634,817	875,603

Selected balance sheet information by operating segments for the year ended 2009 and 2010 was as follows:

Concept		Retail pharmacy	2009 Distribution business	Total
Current assets	Ps.	3,212,844Ps.	8,762,399Ps.	11,975,243
Fixed assets		118,716	1,281,472	1,400,188
Non-current assets		1,374,498	1,737,928	3,112,426
Total assets		4,587,342	10,500,327	15,087,669
Total liabilities		1,663,344	6,773,116	8,436,460

Concept		Retail pharmacy	2010 Distribution business	Total
Current assets	Ps.	7,937,124Ps.	10,774,234Ps.	18,711,358
Fixed assets		2,473,263	1,253,626	3,726,889
Non-current assets		6,457,433	6,066,312	12,523,745
Total assets		14,394,557	16,840,546	31,235,103
Total liabilities		10,334,869	13,817,386	24,152,255

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19. Contingencies and commitments:

a) On February 12, 2007, the Group filed appeals for constitutional relief Nos. 147/2007, 284/2007, and 153/2007 with the Tax Court against the tax reform that binds taxpayers to determine asset tax by applying the 1.25% annual rate to the average value of assets and not reduce the value of debts contracted from the taxable base, effective January 1, 2007. In June 2009, Tax Court handed down a favorable ruling regarding the reduction of the value of debts mentioned therein. Management estimates that there is no contingency charged to the Group, since the provisions whose unconstitutionality was challenged were applied by the Group.

b) On February 8, 2007, Servicios Administrativos Grupo Casa Saba, S.A. de C.V. (formerly Servicios Administrativos Xtra, S.A. de C.V. and, effective March 2008, Daltem Provee Nacional, S.A. de C.V.) filed an appeal for annulment No. 4326/07-17-11-8 with the Tax Court for not having resolved the request for confirmation of the criteria in connection with the provision of the Income Tax Law which limits the tax deduction of tax losses on the sale of stock against taxable income that may be generated in the future. At the date of the auditors' report, the Tax Court had not handed down the pertinent ruling. Consequently, the Company, as the case may be, may file an appeal for constitutional relief.

c) On December 5, 2007 and March 28, 2008, the Mexican tax authorities issued an "invitation" to the Group to file an amended tax return of consolidated income tax for fiscal year 2005 and prove that it added the amount of certain prior year tax losses to consolidated taxable income for the same year. Those tax losses had been reduced by the Group's controlled companies and the holding company to determine cumulative inventory, in accordance with the Income Tax Law. As a result, the Group filed the amended income tax return that meets with that invitation. Accordingly, there is no contingency payable by the Group. However, the Group would carry out actions that would imply adoption of a criterion other than that of the tax authorities, which could have this matter resolved in Tax Court. In Management's opinion, the Group is not bound to comply with the criterion set forth by the tax authorities. Accordingly, the Group has serious and reasonable arguments to sustain its interpretation if this matter should be resolved in the Tax Court. At the date of the auditors' report, the Mexican tax authorities have neither determined the amount of the presumed nonperformance of the Group, nor have they carried out any legal action that represents a present obligation that can be reasonably estimated and recorded in accordance with Mexican FRS. Therefore, it is not possible to foresee or anticipate any result on this matter.

Pursuant to the foregoing, the Group filed a claim for a refund of the income tax payment improperly made in the amount of Ps. 149,295, which had been previously paid through the amended income tax return discussed in the foregoing paragraph. On November 12, 2009, the tax authorities made a partial refund in the amount of Ps. 26,420. Management estimates that it will successfully recover the total amount of the income tax payment made.

d) On February 15, 2010, the Company filed an appeal for constitutional relief No. 387/2010 with the Tax Court against the provisions which change the consolidation regime, effective January 1, 2010. In August 2010, the Tax Court handed down a favorable ruling against the provisions discussed above.

e) At the date of the auditors' report, the Company and its subsidiaries, Casa Saba and Drogueros, are being reviewed by the Mexican tax authorities pursuant to their inspection powers in connection with fiscal 2005. To date, the authorities have not issued the applicable report. Management estimates that significant contingencies will not be generated as a result of this review.

f) The Company and its subsidiaries have entered into various service contracts among them, related to the purchase, storage, and transportation of products, as well as administrative, legal, financing, and electronic data processing services.

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g) In accordance with the Mexican Income Tax Law, companies that carry out related party transactions are subject to tax obligations with respect to the determination of prices agreed upon. Such prices should be comparable to prices that would be used with or among independent parties in arm's-length transactions. The tax authorities could reject the amounts determined and demand payment of taxes. The Group's management believes that all related party transactions were agreed upon on an arm's-length basis and, therefore, there is no contingency in its charge.

h) Drogarias records certain provisions for contingencies based on the opinion of its legal advisors. Accordingly, Drogarias maintains a provision for the total labor and tax lawsuits, classified as risk of a probable loss. At December 31, 2009 and 2010, the liability recorded to cover those losses amounted to thousands of Brazilian real is R\$2,422 and R\$1,619, respectively (Ps. 18,132 and Ps. 12,013), which is included in the line item "Other payables" under long-term in the consolidated balance sheet.

In addition, Drogarias is subject to certain contingencies that may result in present obligations. The solution of these matters is in a preliminary stage and a conclusion might take several years. The contingencies refer to: (i) information required by the Brazilian tax authorities whose nonperformance might result in fines payable by the Company; and (ii) the adoption by Drogarias adopted different forms of remuneration to its management that do not conform to the Brazilian labor legislation. Accordingly, Drogarias has recorded an estimate for those contingencies at December 31, 2009 and 2010 in the amount of R\$2,278 and R\$1,822, respectively (Ps.17,054 and Ps.13,512), which is included in the caption of "Other payables" under long-term. In the opinion of the Companies' advisors, that provision is sufficient to cover the contingencies discussed.

i) Farmacias Peruanas, S.A. filed a suit against liquidation issued by the Superintendency of Tax Administration of Peru (SUNAT), due to differences of criteria for determining the tax base of fiscal years 2001 and 2003 in the amounts of \$7,170 and \$1,827 thousands of Peruvian soles (Ps. 31,600 and Ps. 8,052), respectively. The SUNAT has declared the claims filed by the Company to be inadmissible. On November 11, 2010, the Company challenged that ruling handed down.

At September 30, 2010, Management has created a provision in the amount of Ps. 3,534 which, based on the opinion of its legal advisors, it considers sufficient to cover the liquidation discussed, and it has the necessary arguments to have a ruling handed down in its favor. At the date of the auditors' report, the SUNAT had not handed down the additional pertinent ruling.

j) In 2002 and 2003, Farmacias Benavides, S.A.B de C.V. determined its tax base by applying the official rates of inflation. As a result, the Company recognized a tax gain on inflation in the amount of Ps. 57,000. In 2009, Farmacias Benavides, S.A.B. de C.V. filed a claim for refund of excess taxes paid approximating Ps.15,000. On April 6, 2010, the claim was rejected by the Mexican tax authorities, since the procedure was not determined in accordance with the standard in effect. The Company filed a dissent against that ruling.

k) In accordance with Mexican, Chilean and Brazilian tax legislation, the respective tax authorities can exercise their inspection powers in the normal course of the Group's operations. The tax authorities in Mexico have the power to review up to five fiscal years preceding the last income tax return filed by the Company Company and its subsidiaries. The Group can not foresee if the reviews discussed will give rise to future contingencies. However, they will be disclosed and/or recognized when they are known.

l) In addition to the issues discussed above, the Company and its subsidiaries are involved in various lawsuits and claims derived from the normal course of its operations. Management believes that these matters will not have a significant impact on the Group's consolidated financial position or results of operations.

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m) FASA rents the locales occupied by its pharmacies. The amount of its annual rents payable, derived from the lease agreements, is as follows:

	Amount
Commitments at one year	Ps. 825,617
Between one and five years	2,891,543
More than five years	6,730,515
Operating lease	930,675
	Ps. 11,378,350

20. Recently issued financial reporting standards:

In 2009 and 2010, the CINIF issued the following Mexican FRS that will go into effect as of January 1, 2011 and 2012:

**FRS B-5. “Financial information by segment” (FRS B-5)**

This accounting standard substitutes Bulletin B-5 with the same name. Effective 2011, the main changes are: (i) companies should disclose information by operating segment that is used regularly by executive management, in addition to the information about products or services and geographic areas reported in accordance with Mexican Bulletin B-5; (ii) disclosure of information by primary and secondary segments is eliminated; (iii) for qualifying as operating segments, it is not required for business areas to be subject to distinct risks between each other; (iv) it allows for considering a business in a pre-operating stage as an operating segment; and (v) it requires that the components of the RIF be disclosed as well as liabilities by operating segment. The Group is in the process of evaluating the impact that adopting this provision will have on its consolidated financial statements.

**FRS B-9. “Interim financial reporting” (FRS B-9)**

This accounting standard substitutes Mexican Bulletin B-9 (Bulletin B-9) with the same name. Effective 2011, the main changes are: (i) the statement of changes in stockholders’ equity and statement of cash flows, in addition to the balance sheet and the statement of income (operations), should be presented on a condensed basis when interim financial statements are prepared (Bulletin B-9 does not require that the statement of changes in stockholders’ equity be presented, and it only suggests that the statement of changes in financial position be presented); and (ii) the information presented for interim periods should be compared with its equivalent interim period of the immediately foregoing year. Furthermore, it requires that the balance sheet be compared with the balance sheet at the immediately preceding annual closing date. The Group believes that adoption of this provision will have no impact on its consolidated financial statements.

**FRS C-4. “Inventories” (FRS C-4)**

This accounting standard substitutes Mexican Bulletin C-4 with the same name. Effective 2011, the main changes are: (i) the direct cost method is eliminated; (ii) the allocation formula of the “last-in/first-out” cost of inventories is eliminated (application of the above changes is retrospective); (iii) inventory valuation should consider the lower of acquisition cost or its net realization value (previously, the lower of the base of the cost or market was considered); (iv) the difference between the purchase price of the inventory in normal credit terms and the amount paid is not capitalized, except when the period of acquisition or production is extended; (v) impairment losses are recorded in the cost of sales and reversed by decreasing the cost of sales when the circumstances that generate them no longer exist; and (vi) the amount of inventories recognized in income is disclosed when other elements are included in the cost of sales or when elements comprising the cost of sales are presented in different line items. The Group believes that adoption of this provision will have no impact on its consolidated financial statements.

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FRS C-5. “Prepaid expenses” (FRS C-5)

This accounting standard substitutes Mexican Bulletin C-5 with the same name. Effective 2011, the main changes, whose application is retrospective, are: (i) it excludes the prepaid expense of taxes on earnings, the projected net asset of the pension plan, as well as prepaid interest; (ii) advances for purchases of inventories or fixed assets should be classified as current or non-current in connection with its purpose, but outside of inventories or fixed assets; (iii) impairment losses are recognized in income. However, their effect can be reversed and recorded in income when this occurs, under certain circumstances. Management believes that adoption of this provision will have no impact on its consolidated financial statements.

FRS C-6. “Property, plant and equipment” (FRS C-6)

This accounting standard will replace Mexican Bulletin C-6 with the same name. Effective January 1, 2011, the main changes, whose application is prospective, are: (i) the fixed assets used for developing, operating or maintaining biological assets and the extractive industry form part of this Mexican FRS; (ii) it sets forth the guidelines for recognizing the exchange of nonmonetary assets at fair value and the basis for determining the residual value of a component; (iii) the value affixed by the appraisal to the assets acquired at no cost, which allows for recognizing a donated surplus, is eliminated; (iv) the significant components of an item should be depreciated as if they were a single component, independently from the depreciation of the rest of the item; and (v) the unused component should be depreciated, unless depreciation is determined based on the activity of the component. In addition, FRS C-6 requires that the main components of fixed assets that have a specific useful life, clearly distinct from the rest of the parts, are depreciated separately based on that specific useful life. Management estimates that adoption of this provision will have no impact on its financial statements.

FRS C-18. “Obligations associated with the retirement of property, plant and equipment” (FRS C-18)

This accounting standard eliminates the supplementation of IFRIC 1. “Changes in existing liabilities due to retirement of service, restoration, and similar items” of International Financial Reporting Standards. Recognition of the accounting change should be retrospective. Effective January 1, 2011, the main changes are: (i) it sets forth the guidelines for measuring obligations associated with the retirement of a component; (ii) obligations are recognized at present value of the flows required; and (iii) they are initially recognized against the acquisition cost of the assets that generate them and, subsequently, the changes in estimates that generate the discount rates are recognized in the financial cost, whereas changes in estimates of cash flows are recognized against the pertinent asset. Group Management estimates that adoption of this provision will have no impact on its consolidated financial statements.

“Improvements to 2011 Financial Information Standards”

Effective January 1, 2011, the main changes are as follows:

(i) FRS B-1. “Accounting changes and error corrections” for presenting the opening statement of financial position if adjustments are retrospective.

(ii) Bulletin C-3. “Accounts receivable”, whose application is prospective in connection with recording interest as accrued, and they are determined on a reliable base and their recovery is likely.

(iii) Bulletin C-10. “Derivative financial instruments and hedging transactions”, whose application is retrospective for excluding some effects of hedge effective, recognizes forecasted transactions between related parties with a different functional currency as hedge, and presents “margin accounts” separately.

(iv) Bulletin D-5, “Leases”, whose application is prospective, for using the discount rate in the capitalized lease, and treating the recognition of the gain or loss on the sale and leaseback. Management believes that adoption of this

provision will have no impact on its consolidated financial statements.

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IFRS 19. “Change derived from the adoption of International Financial Reporting Standards” (IFRS 19)

In January 2009, the National Banking Commission and Securities in Mexico (Comision Nacional Bancaria y de Valores or CNBV-Spanish acronym) established rules for companies that list their shares on the Mexican Securities Exchange (Bolsa Mexicana de Valores or BMV-Spanish acronym) to adopt International Financial Reporting Standards (IFRS) no later than January 1, 2012, issued by the International Accounting Standards Board (IASB). Its early adoption is permitted in fiscal years 2008 to 2011, upon notification to the CNBV and BMV.

Pursuant to the foregoing, the CINIF issued Mexican IFRS 19 in order for bound entities disclose the estimated date of adoption, as well as the effects will impact the financial statements. This standard goes into effect for financial statements issued beginning September 30, 2010. Consequently, the Group will adopt IFRS as issued by the IASB, effective January 1, 2012. Therefore, the information shown in the last financial statements based on Mexican FRS will be changed starting with the period of adoption. The change will be recognized retrospectively as if it involved an accounting change of a particular standard. Management has compiled the necessary resources for conversion to IFRS and it is in the process of identifying and quantifying the required adjustments that would impact the Group’s consolidated financial statements.

21. Differences between Mexican FRS and U.S. GAAP:

a) Basis of presentation under U.S. GAAP

The Group’s consolidated financial statements are prepared based on Mexican FRS, which differ in certain material respects from generally accepted accounting principles applicable in the United States (U.S. GAAP). The term “SFAS” as used herein refers to U.S. Statements of Financial Accounting Standards. In addition, the term “FASB” refers to the U.S. Financial Accounting Standards Board.

On July 1, 2009, the FASB changed the manner in which accounting standards were organized by the implementation of the FASB Accounting Standards Codification (ASC). Therefore, ASC 105, “Generally Accepted Accounting Principles” (ASC 105) was issued. Effective that date, ASC 105 is the single official source of authoritative nongovernmental U.S. GAAP, except for Securities and Exchange Commission (SEC) rules and interpretive releases, which are sources of authoritative U.S. GAAP for SEC registrants. The standard is effective for interim and annual periods ending after September 15, 2009. The Group adopted the provisions of the standard on September 30, 2009, which did not have a material impact on its audited consolidated financial statements.

As discussed in Note 3 d) hereinabove, through December 31, 2007, the last date on which the Group operated in an inflationary economic environment, the impact of inflation was recognized in accordance with Mexican Bulletin B-10 regardless of the level of inflation. The effect of the inflation adjustments previously recognized has been maintained in the corresponding line item of the financial statements of the last year reported in accordance with Mexican FRS B-10. This standard requires that the restated amounts of nonmonetary assets as reported at December 31, 2007 become the carrying amounts for those assets effective January 1, 2008. Therefore, the carrying amounts affected the net income of 2008, 2009 and 2010 and will also affect net income in future periods. For example, depreciation expense after the adoption of Mexican FRS B-10 is based on carrying amounts of fixed assets that include inflation adjustments recorded prior to the adoption of Mexican FRS B-10. For U.S. GAAP, financial statements should be prepared on a historical cost basis.

Effective January 1, 2008, the Group adopted Mexican FRS B-10, “Impact of inflation” (FRS B-10), substituting for Mexican Bulletin B-10. FRS B-10 sets forth that the financial statements that recognize the impact of inflation are those relative to an entity whose functional currency applies to a country in which there is an inflationary economic

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Pursuant to the foregoing, the Group has not recognized the impact of inflation for the years ended December 31, 2008, 2009 and 2010 due to the non-inflationary economic environment existing in the countries where the Group operates (Mexico, Brazil, and effective 2010 Chile). Consequently, effective 2008, the amounts of the statements of income and cash flows are presented in nominal Mexican pesos. Should the economic environment change to inflationary, the Group will retrospectively recognize the impact of inflation not recognized in the periods in which the economic environment was non-inflationary by applying the comprehensive method set forth by Mexican FRS B-10.

The reconciliation of the reported net income and stockholders' equity from Mexican FRS to U.S. GAAP does not include the reversal of inflation accounting adjustments as of and for the years ended December 31, 2008, 2009, and 2010, as these adjustments represent a comprehensive measure of the impact of price-level changes in the applicable countries and, as such, are considered a more meaningful presentation than historical cost-based financial reporting for both Mexican and U.S. accounting purposes.

Other than inflation accounting, the principal differences between Mexican FRS and U.S. GAAP that affect the Group's consolidated financial statements are described below along with an explanation, where appropriate, of the method used to determine the adjustments between Mexican FRS and U.S. GAAP.

b) Statement of cash flows

At December 31, 2008, 2009, and 2010, the statements of cash flows prepared under the indirect method in a non-inflationary economic environment present cash inflows and outflows of the period which do not include the impact of inflation of the period, and therefore, the amounts of statements of cash flows are presented in nominal Mexican pesos. Accordingly, the statements of cash flows prepared in accordance with Mexican FRS present substantially the same information as required under U.S. GAAP as interpreted by "Statement of Cash Flows" (ASC 230), except for the recognition in operating, financing and investing activities of the U.S. GAAP adjustments which are not material. Therefore, the Group considers that no reconciliation is needed.

Should the economic environment change to inflationary, the Group will retrospectively recognize the impact of inflation not recognized in the periods in which the economic environment was non-inflationary, in accordance with Mexican FRS B-10. Accordingly, the statements of cash flows will recognize the Group's appropriate presentation when the financial statements are restated to constant Mexican pesos in accordance with the FRS B-10 (Note 3d). Under ASC 230, a statement of cash flows that presents only cash movement and excludes non-cash items is required. This standard does not provide guidance on inflation-adjusted statements of cash flows.

c) Deferred income tax

i) Effective January 1, 2008, the Mexican tax authorities enacted the IETU Law, which co-exists with the Income Tax Law (Note 17). Therefore, the Mexican entities pay Income Tax or IETU, whichever is higher. At December 31, 2010, the Company and its Mexican subsidiaries determined that income tax will be the tax on earnings that will normally be paid instead of IETU in the following years, in accordance with a projection based on reasonable assumptions. Accordingly, the companies accounted for the deferred income tax effect, in accordance with Mexican FRS D-4, "Taxes on earnings", and its related IFRS-8, "Effect of Corporate Flat Tax".

Under Mexican FRS, the Group determines the deferred income tax effect in a manner similar to U.S. GAAP by using the "asset and liability method", by applying the enacted statutory income tax rate at the closing date of the financial statements to the total temporary differences, as well as tax loss carryforwards and tax credits. All of the changes in the deferred income tax effect during the year are allocated in the income statement, except for the deferred income

tax effect derived from temporary differences attributable to changes in other stockholders' equity accounts. In that event, such an effect is applied directly to the specific stockholders' equity accounts that generate such changes.

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Nevertheless, there are specific differences as compared to the calculation under ASC 740, “Accounting for Income Taxes”, as follows: (i) through December 31, 2007, under Mexican GAAP, the recognition of the accumulated initial effect of the “asset and liability method” at January 1, 2000 was recorded to stockholders' equity in the line item “Accrued deferred income tax on earnings”. The balance of that line item in the amount of Ps. (40,695) at December 31, 2007, was reclassified to retained earnings in January 2008, as a result of a Mexican accounting change; (ii) effective January 1, 2008, a deferred income tax asset or liability should be considered as a monetary item if it is derived from monetary item. Should the deferred income tax asset or liability be derived from nonmonetary item, it is considered nonmonetary item. Under U.S. GAAP, the deferred income tax balance is classified as a nonmonetary item; (iii) should the economic environment change to inflationary, the Group will retrospectively recognize the impact of inflation on the deferred income tax not recognized in the periods in which the economic environment was non-inflationary, in accordance with Mexican FRS B-10; and (iv) the effects of deferred income tax on the reconciling items between Mexican FRS and U.S. GAAP.

ii) For Mexican FRS, the deferred tax assets and/or liabilities are classified as a non-current item, regardless of the term in which temporary differences are expected to be reversed and materialize, while under US GAAP, deferred tax assets and/or liabilities should be classified as short-term or long-term items depending on the nature of the line item that gives rise to such deferred tax assets and liabilities. A deferred tax asset or liability that is not related to an asset or liability for financial reporting purposes, including the deferred income tax asset related to tax loss carryforwards, is classified in accordance to its expected reversal date. At December 31, 2009 and 2010, the deferred income tax effect under Mexican FRS and US GAAP was classified as follows:

	Constant mexican pesos			
	Mexican GAAP		U.S. GAAP	
	2009	2010	2009	2010
Current	Ps. (71,352 )	Ps. (217,876 )	Ps. (71,352 )	Ps. (217,876 )
Noncurrent	675,768	(76,508 )	747,120	141,368
	Ps. 675,768	Ps. (76,508 )	Ps. 675,768	Ps. (76,508 )

The effects of deferred income tax on reconciling items between Mexican FRS and U.S. GAAP (basically the funded status) for 2010 amounted to Ps. 33,887 as a noncurrent deferred income tax asset for U.S. GAAP purposes.

Under U.S. GAAP, for a particular tax-paying component and within a particular tax jurisdiction: (a) all current deferred tax assets and liabilities are offset and presented as a single amount and (b) all noncurrent deferred tax assets and liabilities are offset and presented as a single amount. However, deferred tax assets and liabilities attributable to different tax-paying components of the enterprise or to different tax jurisdictions are not offset.

At December 31, 2010, the income tax asset consisted of Mexican income tax liability in the amount of Ps.213,692 and Chilean income tax asset in the amount of Ps. (290,200).

iii) Effective January 1, 2010, the Mexican tax authorities approved the tax consolidation regime change which required determining at December 31, 2009 annual income tax as if tax consolidation rules had not existed since 1999 by applying the provisions discussed in Note 17d). Under Mexican GAAP, based on Interpretation 18, “Recognition of the effects of the tax reform of 2010 on taxes on earnings”, this change was recognized against prior year retained earnings in the amount of Ps. 133,619. Under US GAAP a change in tax status that results from a change in tax law is recognized on the enactment date. Consequently, the effect of recognizing or eliminating the deferred tax liability or asset shall be included in income from continuing operations. Therefore a reconciliation line item is shown in Note 22).

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As explained in the Note 17a), on June 25, 2010, the Company decided it no longer determines its consolidated taxable income with the rest of its controlled subsidiaries for fiscal 2010. As a result of tax deconsolidation, the Company paid the resulting income tax in the equivalent amount referred to above.

d) Accounting for uncertainty in income taxes

Under Mexican FRS, there are no specific guidelines for recording uncertain tax positions. Therefore, the Group is not required to record an income tax liability unless the Group expects that a cash disbursement is probable and quantifiable. For U.S. GAAP, the Group adopted ASC 740, "Accounting for Uncertainty in Income Taxes", effective January 1, 2007 (ASC 740). This standard defines the confidence level that a tax position has taken or is expected to take on a tax return to be recognized in the financial statements. The evaluation is a two-step process: recognition and measurement of a tax position. The tax effects of a position must be recognized only if the position is "more-likely-than-not" to be sustained based on its technical merits (legislation and statutes, legislative intent, regulations, rulings, and case law) at the reporting date. For this assessment, the Group assumes that the tax authorities will examine and have full knowledge of all relevant information for each position.

The more-likely-than-not threshold represents a positive assertion by management that the Group is entitled to the economic benefits of a tax position. If a tax position is not considered more-likely-than-not to be sustained, no benefits of the position are to be recognized in the financial statements. The more-likely-than-not threshold must continue to be met in each reporting period to support continued recognition of a benefit. At December 31, 2009 and 2010, there are no uncertain tax positions "more-likely-than-not" that should be recognized in the Group. Therefore, no reconciling item from Mexican GAAP to U.S. GAAP is needed.

If during any period after recognition the threshold ceases to be met, the previously recorded benefit must be derecognized. Moreover, the benefit of a tax position that initially fails to meet the more-likely-than-not threshold should be recognized in a subsequent period if changing facts and circumstances enable the tax position to meet the threshold, the matter is effectively settled through litigation with the tax authorities, or the statute of limitations has expired.

At December 31, 2009 and 2010, the Group has recognized the provisions set forth in this standard.

e) Deferred employee profit sharing

The Companies established in Mexico are obligated to pay profit sharing to their employees. Profit sharing is calculated by applying a 10% annual rate to taxable income determined for each Group's subsidiary as provided for in the Income Tax Law in Mexico. Deferred employee profit sharing is determined by applying the "asset and liability method". If applicable, employee profit sharing is classified as an operating expense for U.S. GAAP purposes, whereas for Mexican FRS it is classified in "other expenses, net". At December 31, 2009 and 2010, the deferred employee profit sharing assets amounted to Ps. 19,055 and Ps. 7,868, which were included with a related valuation allowance, in accordance with Mexican FRS and U.S. GAAP (Note 3 o) hereinabove).

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f) Additional employee retirement liability and unrecognized net transition obligation

i) Under Mexican FRS, through December 31, 2007, the Group determined the costs of the benefits of the employee pension plan and seniority premium based on the obligations' net present value, and amortized any unrecognized net transition obligation, unrecognized prior service cost, and net gain/loss, following the "corridor method" (Note 3o) over the employees' estimated active service lives, as permitted by ASC 715-30, "Compensation – Retirement Benefits – Defined Benefit Plans – Pensions", under U.S. GAAP. Effective January 1, 2008, resulting from the adoption of new Mexican FRS D-3, the unrecognized net transition obligation, unrecognized prior service cost, and net gain/loss accrued as of December 31, 2007, should be amortized to the income statement over a maximum period of five years, while the new actuarial results generated after the adoption of new Mexican FRS D-3 are amortized normally over the employees' estimated active service lives following the corridor method. At December 31, 2008, 2009, and 2010, the effect of these differences was not material.

ii) The adoption of Mexican FRS B-10 requires the application of real rates for actuarial calculations for entities that operate in inflationary economic environments and nominal rates for those that operate in non-inflationary economic environments. The Group uses those same criteria under U.S. GAAP.

iii) For U.S. GAAP purposes, in September 2006, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" was issued (ASC 715, "Compensation-Retirement Benefits"). This statement requires employers to recognize, on a prospective basis, the funded status of their defined benefit pension and other postretirement plans on their balance sheet and recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit costs.

At December 31, 2008, 2009 and 2010, the funded status (benefits' obligation less fair value of plan assets) of the defined benefit pension and other postretirement plans that considers the unrecognized net transition obligation, negative plan amendments and unrecognized net loss (gain) amounted to Ps. 72,123, Ps. 66,115 and Ps. 112,954, respectively, which was recorded in other comprehensive income, net of income tax. Therefore a reconciliation line item is shown in Note 22).

g) Goodwill

Goodwill recognized under Mexican FRS has been adjusted for U.S. GAAP purposes due to beginning January 1, 2002. Goodwill is not amortized under U.S. GAAP, while under Mexican FRS goodwill was amortized until December 31, 2004. Therefore a reconciliation line item is shown in Note 22).

In addition, under U.S. GAAP, the Group assesses goodwill and indefinite-lived intangible assets for impairment annually unless events occur that require more frequent reviews. Discounted cash flows analyses considering the use of market considerations are applied to assess the possible impairment of goodwill and indefinite life intangible assets. If an assessment indicates impairment, the impaired asset is written down to its fair value based on the best information available. Considerable judgment is necessary to estimate discounted future cash flows. Assumptions used for cash flows are consistent with internal forecasts and industry practices. In addition, the growth and discount rates in determining its projected future cash flows are used by the Group. All these provisions are virtually identical to Mexican GAAP and U.S. GAAP (Note 31). Differences in other factors explained below led to different impairment loss or impairment testing results between Mexican FRS and U.S. GAAP.



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Under U.S. GAAP, the first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the “second step” of the goodwill impairment test discussed below is applied by the Group to measure the amount of impairment loss, if any. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired and thus the second step of the impairment test is unnecessary.

The second step consists of comparing the “implied fair value” of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess. The implied fair value is determined by allocating the fair value of a reporting unit to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit. The excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. That allocation process is performed only for purposes of testing goodwill for impairment.

The situation referred to above, in addition to differences in the determination of the “value in use” by applying the “perpetuity value” (Note 31) under Mexican FRS as compared to U.S. GAAP, as well as differences in the reporting units’ carrying amounts between Mexican FRS and U.S. GAAP, originate, when applicable, different amounts of impairment losses. In addition, under U.S. GAAP subsequent reversal of a previously recognized goodwill impairment loss is prohibited once the measurement of that loss is completed, while Mexican GAAP allows the reversal of the recognition of impairment under certain circumstances. Moreover, impairment loss under U.S. GAAP is included in the determination of operating income. Under Mexican FRS, this item is part of “other (income) expenses, net”.

Based on the results of goodwill impairment testing at December 31, 2009 under U.S. GAAP, the Group recorded an estimated impairment loss in connection with its reporting unit in Brazil in the amount of Ps. 109,000 which differs from impairment loss under Mexican GAAP as explained above. Under Mexican FRS, goodwill impairment loss was determined in the amount of Ps. 210,000 (Note 10). Therefore a reconciliation line item is shown in Note 22).

Likewise, during the last 2010 quarter, based on the results of the goodwill and indefinite-lived intangible assets testing for impairment, the Group determined the fair value of a reporting unit exceeds its carrying amount of goodwill and indefinite-lived intangible assets; thus, the second step of the impairment test was not required.

### h) Other classification differences

Certain items require a different classification in the balance sheet or income statement under U.S. GAAP. A description of these different classifications is as follows:

Under Mexican FRS several unusual or non-recurring transactions, such as restructuring costs (severance payments), gain or losses on the disposal of fixed assets and impairment losses, are included in the line item “other (income) expenses”. Under U.S. GAAP these items are recorded in operating expenses. At December 31, 2008, 2009 and 2010, the effect of these unusual or non-recurring transactions was not material.

At December 31, 2010, the amount of long-lived assets classified as held for sale for approximately Ps. 29,341 was classified as “other current assets” under Mexican FRS, whereas under U.S. GAAP such amount is presented separately in the statement of financial position.

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## 22. Reconciliation from Mexican FRS to U.S. GAAP:

Net income and stockholder's equity, adjusted to take into account the significant differences between Mexican FRS and U.S. GAAP, except for the comprehensive effect of price-level changes as required by Mexican FRS, were as follows:

NET INCOME	Thousands of Mexican pesos (Ps.) and thousands of U.S. dollars (\$),			Convenience translation 2010
	2008	Year 2009	2010	
Controlling interest net income under Mexican FRS	Ps. 595,118	Ps. 280,278	Ps. 276,934	\$ 22,366
Additional employee retirement liability				
(Note 21.f)	2,200	412	(22,339 )	(1,804 )
Unrecognized net transition obligation (Note 21.f)	743	(1,489 )	(5,887 )	(475 )
Impairment loss (Note 21.g)		101,000		
A change in the tax status of an enterprise (Note 21.c)		(133,619 )		
	2,943	(33,696 )	(28,226 )	( 2,279 )
Controlling interest net income under U.S. GAAP	Ps. 598,061	Ps. 246,582	Ps. 248,708	\$ 20,087
Noncontrolling interest net income under U.S. GAAP	Ps.	Ps.	Ps. (6,864 )	\$ (554 )
Weighted average common shares outstanding (thousands)	265,419	265,419	265,419	
Basic and diluted earnings per share under U.S. GAAP	Ps. 2.25	Ps. 0.93	Ps. 0.91	

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EQUITY

	2009	2010	Convenience translation 2010
Stockholders' equity under Mexican FRS	Ps. 6,651,209	Ps. 7,082,848	\$ 572,041
Additional employee retirement liability	(47,232 )	(79,067 )	(6,386 )
Unrecognized net transition obligation	(3,609 )		
Amortization and impairment of goodwill	127,928	127,928	10,333
	77,087	48,861	3,947
Stockholders' equity under U.S. GAAP	Ps. 6,728,296	Ps. 7,131,709	\$ 575,988
Noncontrolling interest			
Stockholders' equity under U.S. GAAP	Ps.	Ps. 151,395	\$ 12,228
Changes in stockholders' equity under U.S. GAAP			
	2009	2010	Convenience translation 2010
Stockholders' equity under U.S. GAAP as of beginning of the year	Ps. 6,586,925	Ps. 6,728,296	\$ 543,406
Comprehensive income under U.S. GAAP	311,371	403,413	32,582
Dividends paid	(170,000 )		
Stockholders' equity under U.S. GAAP at year end	Ps. 6,728,296	Ps. 7,131,709	\$ 575,988
Comprehensive income under U.S. GAAP			
	2009	2010	Convenience translation 2010
Controlling interest net income under U.S. GAAP	Ps. 246,582	Ps. 248,708	\$ 20,087
Accumulated effect on translation	64,789	3,310	267
Noncontrolling interest		151,395	12,228
Comprehensive income	Ps. 311,371	Ps. 403,413	\$ 32,582



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23. Supplementary U.S. GAAP disclosures:

a) Financial instruments with off-balance-sheet risk

Under ASC 825, “Disclosure of information about financial instruments with off-balance sheet risk and financial instruments with concentrations of credit risk”, the Group sells its products mainly to distributors including supermarket chains, pharmacies and retail customers throughout Mexico, as well as Rio de Janeiro, Brazil, and effective October 2010, Chile and Peru. No single customer accounted for a significant amount of the Group’s sales in fiscal 2008, 2009 and 2010, and there were no significant accounts receivable from a single customer for the same years. Moreover, there is no significant concentration of a specific supplier relating to the purchase of inventories.

The Group currently does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on the financial statements, changes in liquidity, capital expenditures or capital resources that are material to investors.

b) Accounts receivable

The majority of the Group’s accounts receivable is due from companies in the pharmaceutical products and health-and-beauty/products activities. Credit is extended based on evaluation of a customer’s financial condition, and generally, collateral is not required. Accounts receivable are due within a 60-120 day term and are stated at amounts due from customers net of an allowance for doubtful accounts. Accounts outstanding longer than the agreed upon payment terms are considered past due. The Group determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, the Group’s previous loss history, the customer’s current ability to pay its obligation to the Group, and the condition of the general economy and the industry as a whole. The Group writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to income.

c) Impairment of other long-lived assets

Under U.S. GAAP, an impairment occurs when the amount of the estimated future cash flows that may be reasonably expected to be obtained through the use of the property and equipment during its remaining economic useful live, reduced by the operating costs and expenses associated with such cash flows, is less than the net carrying value of such assets. The impairment that must be charged to operations is the amount by which the net book value exceeds its recovery value. At December 31, 2009 and 2010, there were no indications of impairment. Other long-lived assets, including amortizable intangibles, are tested for impairment if impairment triggers occur. Bulletin C-15, “Impairment of the value of long-lived assets and their related disposal” of Mexican FRS is virtually identical to U.S. GAAP, except that the reversal of the recognition of impairment is permitted under Mexican FRS, as well as that the impairment is charged in “other expenses, net”, in lieu of being charged to operations under U.S. GAAP.

ASC 360, “Accounting for the impairment or disposal of long-lived assets” sets forth the valuation of fixed assets and some intangibles held for sale at the lower of their net carrying value or their net realized value. ASC 360 specifies the criteria to classify an asset as held-for-sale and the reporting criteria for reporting the effects of the disposal of a business segment. Those rules require showing expected future operating losses from discontinued operations when the losses are incurred. At December 31, 2009 and 2010, the Group did not hold any long-lived assets held-for-sale or discontinued operations.



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d) Business combinations

ASC 805, "Business Combinations" sets forth guidelines to accounting for the acquisition of business, and is effective for fiscal years and interim periods within those fiscal years beginning on or after December 15, 2008. ASC 805 establishes accounting for all business combinations using the purchase method. This guidance requires acquisition-date fair value measurement of identifiable assets acquired, liabilities assumed, and noncontrolling interests in the acquiree.

The measurement requirements result in the recognition of the full amount of acquisition-date goodwill, which includes amounts attributable to noncontrolling interests. The Group recognizes in income any gain on the remeasurement to acquisition-date fair value of consideration transferred or of previously acquired equity interests in the acquiree. Neither the direct costs incurred to effect a business combination nor the costs the acquirer expects to incur under a plan to restructure an acquired business are included as part of the business combination accounting. As a result, those costs are charged to expense when incurred, except for debt or equity issuance costs, which are accounted for in accordance with other generally accepted accounting principles.

This standard also changes the accounting for contingent consideration in process research and development, contingencies, and restructuring costs. In addition, changes in deferred tax asset valuation allowance and acquired income tax uncertainties in a business combination that occur after the measurement period will impact income taxes.

Mexican FRS B-7, "Business acquisitions" (FRS B-7), effective January 1, 2009, is virtually identical to U.S. GAAP under ASC 805. Consequently, adoption of this guidance had no impact on the Group's consolidated results and financial position.

As discussed in Note 1c) abovementioned, the Group completed analyzing and clearing the accounting records of Drogasmil. Consequently, the final allocation of purchase price was performed by the Group in accordance with provisions discussed above. Therefore, the Group determined that changes were not generated in the preliminary allocation of the purchase price of the net assets acquired at the acquisition date as a result of the final distribution of the price paid for those assets. In addition, the preliminary value of goodwill recorded at the acquisition date was not changed either.

As discussed in Note 1d), the Company acquired the shares issued and outstanding representative of the capital stock of FASA. The agreed upon sales price amounted to Chilean pesos \$240,870,791 thousand (approximately Ps. 6,201,240). The purchase price was allocated to underlying assets and liabilities based on their fair value at the acquisition date. The purchase price allocation includes goodwill and other intangible assets. The following table represents the purchase price allocation:

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	(Thousands of Mexican pesos)
Cash and equivalents	\$ 286,512
Trade receivables, net	426,949
Other accounts receivable	583,784
Inventories	2,890,229
Other current assets	43,966
Property and equipment, net	2,374,094
Investment in associates	46,768
Other assets	159,273
Goodwill, intangible assets, and deferred charges	7,011,179
Short-term debt	(308,525 )
Trade accounts payable	(3,660,555)
Other payables	(1,086,840)
Long-term debt	(2,246,771)
Employee benefits	(58,781 )
Other payables	(120,545 )
	6,340,737
Noncontrolling interest	(139,497 )
Total acquisition consideration	\$ 6,201,240

## Goodwill impairment testing

The new business combination guidance amends the goodwill impairment test requirements. For a goodwill impairment test as of the effective date of the new guidance, the value of the reporting unit and the amount of implied goodwill, calculated in the second step of the test, is determined in accordance with the measurement and recognition guidance on accounting for business combinations under the new standard. This change could affect the determination of what amount should be recognized as an impairment loss for goodwill recorded before the effective date of the new standard. This new guidance is effective January 1, 2009 for the Group and applies to goodwill related to all acquisitions.

At December 31, 2009 and 2010, the Group has Ps. 1,305,227 of goodwill related to business acquisitions previous to January 1, 2009. The Group's adoption of this provision had no impact on the results of its impairment testing subsequent to that date.

## e) Effect on income taxes in a business combination

The Group records all changes to a valuation allowance for acquired deferred income tax assets or the effect of changes in an acquired tax position that occur after the acquisition date by initially reducing the related goodwill to zero, next by reducing other noncurrent intangible assets related to the acquisition to zero, and lastly by reducing income tax expense. However, ASC 805, "Business Combinations", amends ASC 740, "Income Taxes", to require the Company to recognize changes to the valuation allowance for an acquired deferred tax asset or the effect of changes in an acquired tax position as adjustments to income tax expense or contributed capital, as appropriate, and not as adjustments to goodwill. This accounting is required effective January 1, 2009 for the Group and applies to valuation allowances and tax positions related to all acquisitions.

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At December 31, 2009 and 2010, the Group does not have a valuation allowance related to deferred tax assets acquired in the business combination discussed in Note 1c) and 1d) hereinabove. Any change in the valuation allowance subsequent to December 31, 2008 will be recorded as a reduction of income tax expense rather than as a reduction of goodwill.

f) Variable interest entities

Under U.S. GAAP, the Group applies ASC 810, "Consolidation" (formerly Interpretation 46R, "Consolidation of Variable Interest Entities, an interpretation"). The interpretation addresses the consolidation of variable interest entities (VIE) which have one or more of the following characteristics: (i) entities in which the equity investment at risk is not sufficient to finance their operations without requiring additional financing support provided by any parties, including the equity holders; and (ii) the equity investors lack one or more of the following attributes: a) the ability to make decisions about the entity's activities through voting or similar rights, b) the obligation to absorb the expected losses of the entity, and c) the right to receive the expected residual returns of the entity.

Variable interests, among other factors, may be represented by operating losses, debt, contingent obligations or residual risks and may be assumed by means of loans, guarantees, management contracts, leasing, put options, derivatives, etc. A primary beneficiary is the entity that assumes the variable interests of a VIE, or the majority of them in the case of partnerships, directly or jointly with related parties, and is the entity that should consolidate the VIE. In connection with related parties discussed in Note 11), the Group considers that related parties are not VIEs under the scope of ASC 810, and, therefore, as of and for the years ended December 31, 2009 and 2010, the Group has not consolidated any assets, liabilities or operating results of such entities.

g) Quantitative and qualitative disclosures about market risk

The Group is subject to market risks due to interest rate fluctuations that prevail in Mexico, Brazil and, effective October 2010, Chile. Those fluctuations impact the long-term debt incurred from loans obtained from Chilean and Mexican banks, as well as marketable bonds discussed in Note 12). In addition, the Group obtained various secured and unsecured loans in various amounts for the financing of its operations as well as to acquire the shares issued and outstanding representative of the capital stock of FASA (Note 1d).

The Group has managed its interest rate risks considering the available financing rates in the market. In addition, at the issue date of the financial statements, the Group had entered into cash flow hedge contracts (Dollar / Peso Forwards). The Company agreed upon these transactions in different months of the year to look for a future U.S. dollar purchase price on different dates, and to be able to meet its U.S. dollar-denominated commitments. The designation of hedges is documented by describing the strategy and objective of management of risks, hedged risks, its accounting recognition, and how its effectiveness is measured. Management estimates that the changes in cash flows of these instruments maintain high effectiveness in offsetting the changes in cash flows of the primary position, both at the beginning and throughout the relationship of the designated hedge. The Company does not carry out derivative instruments trading (Note 8).

h) Fair value of financial instruments

The carrying amount of cash, trade accounts receivable, other accounts receivable, receivables due from and payable to related parties, trade accounts payable, other accounts payable and accrued expenses, as well as short-term debt, approximate their corresponding estimated fair values due to the short-term maturity and revolving nature of these financial assets and liabilities. Cash equivalents are recognized at fair value considering quoted market prices for the same or similar instruments. The estimated fair value of long-term debt is based on estimated market prices for

similar instruments, considering interest rates currently available for the Group to negotiate debt with the similar terms and due dates.

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i) Fair value measurements

In September 2006, ASC 820, “Fair Value Measurements and disclosure”, was issued. ASC 820 redefines the concept of fair value and establishes a framework for the measurement of fair value, and enhances disclosures about fair value measurements. The Statement does not change existing accounting rules on what can or what must be recognized, reported or disclosed at fair value in the Group’s financial statements. This guidance does not eliminate practicability exceptions that exist in accounting pronouncements amended by this guidance when measuring fair value.

Under Mexican FRS, in addition to certain investments in trading securities which are recorded at their quoted market prices, the Group recognizes its derivative financial instruments at their estimated fair value (Notes 3f), h) and Note 8). For Mexican FRS purposes, fair value is the amount for which a financial asset could be exchanged and a financial liability settled between willing parties in an arm’s length transaction. Beginning in 2008, under U.S. GAAP, the fair value concept was redefined by ASC 820 as an “Exit Value”, which is the price that would be received to sell an asset or spent to pay a liability in an orderly transaction between market participants at the measurement date. Under Mexican FRS, fair value is equivalent to a settlement amount at the balance sheet date while the Exit Value under U.S. GAAP considers the counterparty’s credit risk in the valuation.

The concept of Exit Value works under the premise that there is a market and market participants for the specific asset or liability. When there is no market and/or market participants willing to make a market, ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are as follows: (i) unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities; (ii) inputs that are observable, either directly or indirectly, but do not qualify as level (i) inputs and (iii) prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable.

The guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Group adopted this guidance on January 1, 2008. The adoption of the guidance had no impact on the Group’s consolidated financial position and results of operations.

Effective date of ASC 820

On January 1, 2009, the Group adopted ASC Topic 820, “Fair Value Measurements and Disclosures”, for fair value measurements of non-financial assets and non-financial liabilities that are recognized or disclosed at fair value in the financial statements on a non-recurring basis. Examples of items within the scope of ASC 820 are nonfinancial assets and nonfinancial liabilities initially measured at fair value in a business combination (but not measured at fair value in subsequent periods), and long-lived assets, such as property, plant and equipment and intangible assets measured at fair value for an impairment assessment under the accounting for the impairment or disposal of long lived assets.

In accordance with the aforementioned, at December 31, 2009, the Group recorded an estimated impairment loss in connection with its reporting unit in Brazil in the amount of Ps. 109,000 which differs from impairment loss under Mexican GAAP. Under Mexican FRS, goodwill impairment loss was determined in the amount of Ps. 210,000 (Note 21g). For that purpose the Group considered the level 3 of the fair values hierarchy.

j) The Fair Value Option for Financial Assets and Financial Liabilities

Effective January 1, 2008, ASC 825, “Financial Instruments”, allows an option to make an irrevocable instrument-by-instrument election to measure eligible items at fair value in their entirety. In addition, unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings at each reporting date.

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In the year in which the guidance initially applied, the cumulative-effect adjustment is (1) measured as the difference between the carrying amounts and the fair values of financial instruments at the date of application and (2) recorded in the opening balance of retained earnings or in other appropriate components of equity or net assets in the statement of financial position. The differences may include unamortized deferred fees, costs, premiums, and discounts, valuation allowances such as the allowance for loan losses, and accrued interest. Any changes in fair value due to the concurrent adoption of the fair value measurement guidance will be included in the cumulative-effect adjustment if the fair value option (FVO) is also elected for that item. The Company has not elected to measure any eligible item at fair value.

k) Noncontrolling interests

On January 1, 2009, the Group adopted ASC 810, “Noncontrolling Interests in Consolidated Financial Statements”. ASC 810 changes the accounting for, and the financial statement presentation of, noncontrolling equity interests in a consolidated subsidiary. The new standard defines a new term—noncontrolling interests—to replace what were previously called minority interests. ASC 810 establishes noncontrolling interests as a separate component within the equity of a consolidated entity. Also, it requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest.

Classifying noncontrolling interests as a component of consolidated equity is a change from the current practice of treating minority interests as a mezzanine item between liabilities and equity or as a liability. The presentation and disclosure requirements are required to be applied retrospectively for all periods presented.

The Groups’ adoption of this provision did not have an impact on its consolidated financial position and results of operation. Mexican FRS B-7, “Business acquisitions” (FRS B-7), effective January 1, 2009, is virtually identical to U.S. GAAP.

l) Employers Disclosures about Postretirement Benefit Plan Assets

On January 1, 2010, the Group adopted ASC 715, “Compensation-Retirement, 20, “Defined Benefits Plans-General, 50”. This standard provides additional guidance regarding employers’ disclosures about plan assets of a defined benefit pension or other postretirement plan. The adoption of this interpretation increases the disclosures in the financial statements related to the assets of the Group’s postretirement benefit plans.

m) Recently Issued Accounting Pronouncements

On January 1, 2010, the Group adopted the Accounting Standard Update (ASU) 2009 16, “Transfers and Servicing (ASC 860: Accounting for Transfers of Financial Assets (FASB Statement No. 166, Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140))”.

ASU 2009 16 removes the concept of a qualifying special purpose entity (QSPE), and the exception from applying ASC 810 10 (the variable interest entity accounting to qualifying special purposes entity), thereby requiring transferors of financial assets to evaluate whether to consolidate transferees that previously were considered qualifying special purposes entities. Transferor imposed constraints on transferees whose sole purpose is to engage in securitization or asset backed financing activities.



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ASC 860 modifies the financial-components approach used in U.S. GAAP and limits the circumstances in which a financial asset, or portion of a financial asset, should be derecognized when the transferor has not transferred the entire original financial asset to an entity that is not consolidated with the transferor in the financial statements being presented and/or when the transferor has continuing involvement with the transferred financial asset. ASC 860 also defines the term participating interest to establish specific conditions for reporting a transfer of a portion of a financial asset as a sale. ASC 860 requires that a transferor recognize and initially measure at fair value all assets obtained (including a transferor's beneficial interest) and liabilities incurred as a result of a transfer of financial assets accounted for as a sale. Enhanced disclosures are also required by ASC 860. Adoption of this provision does not have an impact on the consolidated financial position and results of operation.

In June 2009, ASC 810, "Consolidation", was issued. ASC 810 is intended to improve financial reporting by providing additional guidance to companies involved with variable interest entities and by requiring additional disclosures about a company's involvement in variable interest entities. This standard is effective for interim and annual periods beginning after November 15, 2009. The Groups' adoption of this provision had no impact on its consolidated financial position and results of operation.

In October 2009, ASU 2009-13, "Multiple-Deliverable Revenue Arrangements", was issued. This standard modifies the fair value requirements of ASC 605-25, "Revenue Recognition-Multiple Element Arrangements", by allowing the use of the "best estimate of a selling price" in addition to Vendor Specific Objective Evidence and Third Party Evidence for determining the selling price of a deliverable. ASU 2009-13 changes the requirements for establishing separate units of accounting in a multiple element arrangement and requires the allocation of arrangement consideration to each deliverable to be based on the relative selling price. ASU 2009-13 is effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Adoption of this provision does not have an impact on the consolidated financial position and results of operation.

In April 2009, ASC 825, "Financial Instruments", was issued. ASC 825 requires disclosures of fair value for any financial instruments not currently reflected at fair value on the balance sheet for all interim periods. ASC 825 enhances consistency in financial reporting by increasing the frequency of fair value disclosures and is effective for interim and annual periods ending after June 15, 2009, and is to be applied prospectively. Adoption of this provision did not have an effect on the Group's consolidated financial statements.

In April 2009, transition guidance ASC 820-10-65-4, "Fair Value Measurements and Disclosures—Overall—Transition Guidance", the provisions of which have been incorporated in ASC 820-10-50-2, "Fair Value Measurements and Disclosures—Overall—Disclosures". ASC 820 requires disclosures about fair value of financial instruments for interim reporting periods and annual financial statements of publicly traded companies. This guidance is effective for interim and annual periods ending after June 15, 2009. Adoption of this provision did not have an effect on the Group's consolidated financial statements.

In March 2008, ASC 815, "Derivatives and Hedging" was issued. ASC 815 requires enhanced disclosures about an entity's derivative and hedging activities including how and why an entity uses, and how an entity accounts for, derivative instruments and related hedged items and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. ASC 815 is effective beginning January 1, 2009. Adoption of this provision did not have an effect on the Group's consolidated financial statements.

In January 2010, the FASB issued ASU 2010-06, "Fair Value Measurements and Disclosures—Improving Disclosures about Fair Value Measurements". The new standard provides new disclosures relating to transfers in and out of levels 1 and 2 and activity in level 3 fair value measurements. Additionally, it clarifies existing disclosures regarding level of disaggregation and disclosures about inputs and valuation techniques. This guidance is effective for interim and

annual periods ending after December 15, 2009. Adoption of this provision did not have an effect on the Group's consolidated financial statements.

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In July 2010, the FASB issued ASU 2010-20, “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses”. The amendments require an entity to provide additional disclosures about its financing receivables on a disaggregated basis including a roll-forward schedule, the nonaccrual status of financing receivables and impaired financing receivables by class, credit quality indicators, and an aging schedule among others. The disclosures required by the ASU as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The Group is evaluating the potential effect of this provision.

In February 2010, the FASB issued ASU 2010-09, “Subsequent Events, Amendments to Certain Recognition and Disclosure Requirements”. This update addresses certain implementation issues related to an entity’s requirement to perform and disclose subsequent-events procedures, and removes the requirement that public companies disclose the date of their financial statements in both issued and revised financial statements. According to the FASB, the revised statements include those that have been changed to correct an error or conform to a retrospective application of U.S. GAAP. Adoption of this provision had no impact on the Group’s consolidated financial statements.

In March 2010, the FASB issued ASU No. 2010-11, which is included in ASC 815. This update clarifies the type of embedded credit derivative that is exempt from embedded derivative bifurcation requirements. Only an embedded credit derivative that is related to the subordination of one financial instrument to another qualifies for the exemption. This guidance became effective for the Company’s annual reporting period beginning January 1, 2010. Adoption of this provision had no impact on the Group’s consolidated financial statements.

In August 2010, the FASB issued ASU No. 2010-21, “Accounting for Technical Amendments to Various SEC Rules and Schedules — Amendments to SEC Paragraphs Pursuant to Release No. 33-9026; Technical Amendments to Rules, Forms, Schedules and Codification of Financial Reporting Policies” and ASU 2010-22, “Accounting for Various Topics — Technical Corrections to SEC Paragraphs — An announcement made by the staff of the U.S. Securities and Exchange Commission”. Adoption of this provision had no impact on the Group’s consolidated financial statements.